2005 Annual Report

Uniting All Our Advantages

The Port of Koper and Slovenia: a port and a country representing a crossroads in the full meaning of the word, and therefore much larger than a map can reveal. Besides their exceptional position at the junction between north and south, east and west, they share much more. First of all, the desire for their guests, and in Luka Koper their goods and customers, to be satisfied. They also share quality, for which they are both receiving international awards, followed by endeavours for sustainable development, which is keeping pace with social responsibility. That is why our business report for a year marked by high achievements speaks of our connectedness with the environment in which we work. We are combining its advantages and using them to build our joint reputation. Join us for a stroll through the past year and through the Port of Koper.

At Luka Koper, d.d. we are proud of the **EFQM European award for business excellence** received in 2005.

Dear Sir or Madam,

before you is the Annual Report of Luka Koper, d.d. and the Luka Koper Group. Its purpose is to present the business operation of the Company and the group in 2005, significant achievements, and our plans for the future.
The basis of the Annual Report is the business operation of Luka Koper, d.d. and its subsidiaries, the financial report of Luka Koper, d.d. and the consolidated financial report of the Luka Koper Group. Luka Koper, d.d. is the most important company in the Luka Koper Group, which is why the Business Report is focused primarily on the business operation of the controlling company. The financial statements of Luka Koper, d.d. have been prepared in conformity with the provisions of Slovene Accounting Standards. This report, featuring key findings in connection with the Luka Koper Group and observing the provisions of International Financial Reporting Standards (IFRS), is for easier comprehension included in the consolidated financial report of the Luka Koper Group.

Contents

It is still night. When day breaks,

mountains will appear on the northern horizon behind the port. At times it seems we can touch the alpine peaks with our hands. In the morning, containers will continue their journey towards Vienna, Milan, the Czech Republic, or maybe to Bavaria.


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Selected Performance Indicators

	2001	2002	2003	2004	2005
Operating revenues (millions of SIT)	12,854	12,967	14,506	16,733	20,694
Cargo throughput (millions of tons)	9.35	9.43	11.04	12.40	13.07
Net profit (millions of SIT)	3,638	4,494	3,885	4,182	4,189
Equity (millions of SIT)	52,666	55,636	57,610	60,604	63,116
EPS (SIT) *	259.9	321	277.5	298.7	299.2
Return on equity (%)	7.29	8.3	6.86	7.07	6.77
Added value per employee (thousands of SIT)	13,121	12,449	13,029	14,038	16,501
Number of employees on 31 December	633	630	647	650	679

* All shares were included in the calculation of the earnings-per-share ratio (EPS).

Company Profile

Name:
Luka Koper, Port and Logistics System, joint stock company
Abbreviated name:
Luka Koper, d.d.
Registered office:
Vojkovo nabrežje 38, Koper

Entered in the register of:
The District Court of Koper, entry number 066/10032200

Registration number: **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 rights

Nominal value of shares of both classes: **SIT 1,000**
Quotation of shares: **Ljubljana Stock Exchange, quotation of ordinary shares on the stock exchange**
Share symbol: **LKPG**

Chairman of the Management Board: **Robert Časar, LLB**

Chairman of the Supervisory Board: **Marko Starman, LLM**

Luka Koper manages the Slovene cargo port and is among the leading service companies in Slovenia. Since its establishment in 1957, our business results and achievements have enabled us to build a sound reputation and tradition in the international environment.

Luka Koper as a port system:
- has 11 specialized and modernly equipped terminals for various types of cargoes,
- manages the free-trade zone, which covers the entire area of the Port of Koper,
- is responsible for the maintenance and development of port infrastructure,
- disposes with 30 hectares of covered warehouses and 96 hectares of open warehouse space on 255 hectares of land,
- offers 25 ship moorings on 3,134 metres of shore alongside 173 hectares of sea area,
- is developing into a logistic system providing integral support to goods traveling through the Port of Koper.

Organizational Structure of the Luka Koper Group

parent company	profit centres	subsidiary companies	associated companies
Luka Koper, d.d.	PC General Cargo Terminal	Luka Koper INPO, d.o.o. 100 %	Adria Transport d.o.o. 50 %
	PC Fruit Terminal	Luka Koper Pristan d.o.o. 100 %	Avtoservis Koper, d.o.o. 49 %
	PC Container and RO-RO Terminal	Luka Kopar Beograd d.o.o. 90 %	Adriafin d.o.o. 39.45 %
	PC Car Terminal	Adria-Tow, d.o.o. 50 %	Actual I.T., d.o.o. 26 %
	PC Timber Terminal		Kopinvest Netherlands BV 25 %
	PC Dry Bulk Cargo Terminal		Intereuropa d.d. 24.56 %
	PC Liquid Cargo Terminal		Golf Istra d.o.o. 20 %
	PC European Energy Terminal		
	PC Alumina Terminal		

At the Beginning of a New Development Cycle

Luka Koper is the principal developer of Slovene port activities and one of the main generators of services in the entire transport-logistics sector in the country. This is written in the introduction to our new Development Strategy for the Period up to the Year 2015 and, together with the strengthening of our international competitiveness, represents the basic orientation of the Management Board which assumed the management of Luka Koper, d.d. in the autumn of 2005.

For Luka Koper, d.d. and the Port of Koper itself, the past year was in many respects a turning point. The stable growth and development of the Port of Koper have been our constants for almost five decades, ever since the first ship arrived at our port. This development has intensified in the past decade, notably after Slovenia's attainment of independence. For the first time in its history, Luka Koper, d.d. had to seriously confront the fact that the environment in which it is developing and growing is not without limits. The time had therefore come for serious reflection on the long-term strategy that we will implement through concrete development decisions.

Traffic-logistic activities have all the natural features and other possibilities enabling them to become one of the most important generators of economic development in Slovenia in the coming decades. The Management Board's principal task was to prepare a new strategy that will direct the Port of Koper and the Luka Koper stock company upon their entry into a new development cycle. In March of this year, the Supervisory Board will discusse and aprove the Development Strategy of the Company up to the year 2015, in which the Management has set some very ambitious tasks. Luka Koper, d.d. has retained its fundamental vision - to become the leading port and logistic system for the countries of Central Europe. Our key development orientations include settling relations with the state and the local community, utilizing and constructing facilities that are justifiable from the business aspect and environmentally acceptable, and improving the structure of services through active marketing. The strategy foresees that, in the next decade, the total cargo handled will increase by approximately 40 percent and reach 18 million tons. In particular car and container cargoes will increase at an accelerated rate, while general cargoes will remain on the same level.

In the past year, the Company operated for the first time as an internal port of the European Union for a whole year. This new status did not cause any serious problems, as Koper has been (though unofficially) a European port for several years. Now that Koper is formally included in the network of European ports, we must also consider the expectations and requirements embodied in the adopted traffic policy of integrated Europe. This policy strongly emphasizes Slovenia's role as a traditional meeting point and crossroads of transit routes. Yet it is our task in particular to determine the degree of significance that Koper will have in future, and with it the entire Slovene transport route.

In order to keep pace with our competitors, we will need to expand our capacities. To satisfy growing demands, we will need additional warehouse areas, especially new operational shores enabling the entry of large modern ships. Preparations for the construction of a new pier met with strong opposition from part of the local community. The representatives of the Government and competent ministries managed to appease passions by bringing the debate to a professional and political level. This revealed the need to comprehensively assess the role and significance of the Port of Koper and its possibilities, and define its development goals.

At the beginning of the year, an interdepartmental working group was established with the task of preparing guidelines for development, for the comprehensive settlement of legal and property relations between Luka Koper and the state, and for assessing the justification of the state land use plan for the entire port infrastructure. This group completed an enormous task in the past year, one of its principal achievements being the approval of a state land use plan for the new Koper-Divača railway line.

Through its successful work and business operation, the Luka Koper stock company is proving that it is a good, economical and development-oriented provider of port and logistic services in Slovenia's only cargo port. This is more than evident in our results. Just before the end of the year, an anticipated record was attained - 13 million tons of handled cargo. More important is the fact that operating revenues increased by 24 percent over 2004, and operating profit by an amazing 167 percent, reaching the amount of SIT 3.9 billion. These results prove that our business orientation towards increasing the share of cargoes with higher added value, such as containers, cars, fruit, and other general cargo groups, was the proper choice.

For Luka Koper, d.d., the year 2005 was marked by several other significant shifts and achievements. Normal, nonconflicting communications were established with the state as our majority owner, which is crucial for resolving all open issues and development dilemmas. Cooperation with the Municipality of Koper has also been renewed on the basis of mutual trust, which is a good foundation for the successful development of the municipality, port and society. Two projects involving the construction of a northern by-pass road and a new passenger terminal are currently in progress.

In cooperation with the Municipality of Koper and the local community, we initiated a project of local partnership entitled "Living with a Port", which will function as a platform for resolving open issues relating to the coexistence of the Port of Koper with the natural and social environments.

Sustainable development and environmental management is also one of our most important areas of activity. An anti-dust protection system is being installed in the most exposed areas of the Dry Bulk Cargo Terminal and will be fully completed in 2006. Technical improvements for cleaner work are being introduced at other terminals. Measurements of dust particle and noise emissions, which have been regularly conducted for several years, were upgraded with measurements of imissions in exposed residential areas. Additional measurements have confirmed that emissions from the port into the surroundings are far below the prescribed limit values.

In the area of marketing, we have achieved an important acquisition with the arrival of a large Chinese ship operator, COSCO, which currently maintains a regular route between Koper and Naples. It is essential that we strengthen our position in those market segments that are strategically significant for Luka Koper, d.d.. The status of a European port allows us to function as a major distribution point for fruit and other perishables arriving in the European Union from Israel. We have also gained a strong position on the Egyptian market for the same types of cargoes. Stable growth was repeatedly achieved in car cargoes. Koper has become the main distribution point in the Mediterranean for cars from overseas countries. A growing trend was again registered in container cargoes, where Luka Koper has assumed primacy in the Hungarian market. The high quality of all our services continues to be one of the Company's most important competitive factors. This has additionally been confirmed by the most prestigious European award for business excellence, which was granted to Luka Koper, d.d. by the EFQM foundation.

Among the first important tasks of the Management Board, which took over the management of the Company in October/ November 2005, is the settlement of relations with the Slovene Railway Company, one of the key partners in the port's transport and logistic links with the hinterland. We have proved that good partner cooperation is the best way to successfully resolve difficulties, eliminate operational deadlocks and increase cargo handling results. Mutual cooperation will be upgraded by the joint marketing of specific logistic products.

We expect that all dilemmas regarding the role and development of Luka Koper as a port and as a stock company will be resolved in 2006. It will be necessary to create a model of port management that is comparable to other European ports and will enable the undisturbed conduction of business and the development of the stock company as its operator.

At present we are in a period of long-term strategic positioning of northern Adriatic ports. In order to develop, ports require adequate spatial capacities and equipment. Preparations for new projects are already under way in neighbouring ports, with the goal of attracting additional container traffic. In Koper as well, adequate solutions will need to be found as soon as possible in order to satisfy the expected growth, particularly in container and car cargoes. The Management promptly began preparations for the initiation of the most urgent projects, such as the reorganization and upgrading of existing warehouse areas and rooms, the completion of the Car Terminal, and the modernization of some other terminals. In all development steps taken by the Company, we shall consistently observe the principles of sustainable development and rational use of the limited, yet extremely valuable area of the Slovenian coast.

Of key significance in the context of corporate policy is the cooperation of all participants in modern transport and logistic chains. Our cooperation with the Slovene Railway Company must strengthen the competitiveness of transits via the Port of Koper, ensure timely and safe transport, and acceptable prices to customers. The Port of Koper must be connected with as many regular ship lines as possible. Competitive terms will be offered to ship operators, while the flow of goods should be sufficient to ensure the maximum filling of ship space. Our goal is for our port to be linked to hinterland and overseas markets by the largest possible number of high-quality logistic chains.

In the area of marketing, the Company will be primarily oriented towards improving the cargo structure. Special emphasis will be devoted to increasing container and car cargoes. At the same time, it will be necessary to gradually restructure those cargoes that are unacceptable to the port and its immediate surroundings. In this respect the Company is oriented towards upgrading the basic cargo and warehouse services with services having a higher added value, as well as making use of the advantages of the economic zone. All these activities will simultaneously strengthen the role of Luka Koper as a goods distribution centre for the broader area.

Our results so far and particularly our ambitious plans prove that Luka Koper, d.d. is a successful, stable and socially responsible company with exceptional development potentials and opportunities. By increasing revenues from the sale of services, economical operation and the effective management of financial assets, we will ensure the stable and long-term growth of profitability and of the property of all our owners.

Robert Časar, LLB
Chairman of the Management Board of Luka Koper, d.d.

Koper, 16th February 2006

Report of the Supervisory Board

In 2005 the Supervisory Board conducted its activities in two compositions. For the first half-year, the Supervisory Board was chaired by Miha Kozinc. Until July, the Supervisory Board had two regular and two extraordinary meetings. At the end of February 2005, discussed and adopted the Company's annual report for the year 2004, which was audited by the audit firm Deloitte & Touche Revizija, d.o.o., and supported the proposed allocation of distributable net profit. The shareholders adopted a resolution on the allocation of distributable net profit at the 10th General Meeting held on 7th July 2005. They approved the proposed allocation of profit to dividends, reserves and profit from previous periods. The shareholders discharged the Chief Executive Officer and members of the Supervisory Board of their duties in the 2004 business year, and adopted a resolution specifying that the Annual Report of Luka Koper, d.d. for 2005 would be audited by the same auditors as in 2004. Other important resolutions adopted by the Supervisory Board in its previous composition included the sale of 288,683 shares of the company Autocommerce, d.d., the sale of Logistic Service, d.o.o., and the approval of the report on the business operation of the Luka Koper Group in the first quarter of 2005.

July 2005 brought changes in the management of the Supervisory Board as well as in its composition. At the 10th Regular General Meeting held on 7th July 2005, the shareholders recalled five members of the Supervisory Board: Janez Požar, MSc, Dr. Igor Jakomin, Tomaž Može, Borut Jamnik and Miha Kozinc. Its new members were elected for a term of four years. As of 7th July 2005, the Company's majority owner – the Republic of Slovenia – is represented in the Supervisory Board by Marko Starman, MSc, Dr. Peter Verlič and Boris Zadel; the Funds of the Republic of Slovenia are represented by Marko Valentinčič, and other shareholders by Metod Mezek. The members from the previous composition who are continuing their term of office are: Boris Popovič as the representative of the Municipality of Koper, and Tatjana Jazbec, Robert Jerman and Alverino Pavletič as the representatives of employees.

The constitutive meeting of the new Supervisory Board was held on 25 July 2005. Marko Starman was elected Chairman, and Dr. Peter Verlič was elected Deputy Chairman of the Supervisory Board. At the same session, the Supervisory Board accepted the resignation of the Company's Chief Executive Officer, Bruno Korelič. Marjan Babič, Assistant to the Chief Executive Officer responsible for economics and finance, was appointed to the post of Acting Chief Executive Officer until the appointment of a new Management Board.

At the 11th regular General Meeting of the Company held on 26 July 2005, the shareholders approved the amendments to the Articles of Association proposed by the Republic of Slovenia as a shareholder of the Company. The most important amendment was the change in the composition of the Company's Management Board. According to the adopted amendments, the Management Board is now comprised of four members: the chairman, deputy chairman, member, and the employee director. The Supervisory Board met immediately after the General Meeting and decided to select three members of the Management Board on the basis of a public invitation for applications, while the fourth member – the employee director – would be selected by the Employee Council. The public invitation for applications was announced in the beginning of August. Interviews with candidates who fulfilled the formal competition requirements were conducted in September. On 24 October 2005 the Supervisory Board unanimously appointed Robert Časar to the post of Chairman of the Management Board and Marjan Babič to the post of Deputy Chairman of the Management Board for a term of five years. On 4th November 2005, Aldo Babič was appointed member of the Management Board and Pavle Krumenaker was appointed Employee Director on the proposal of the Employee Council.

The Supervisory Board of the stock company Luka Koper, d.d., appointed by the General Meeting in July 2005, had eight regular meetings and one circular meeting. The new management team regularly informed the Supervisory Board on day-to-day business activities of the Company and its subsidiaries. Among other items, the Supervisory Board discussed the report on transactions that were subsequently approved by the Supervisory Board in line with the provisions of the Articles of Association, and transactions whose value exceeded five percent of the share capital of the Company (sales or purchases of shares in companies) within a period of one year. The Supervisory Board discussed the status of the former Chief Executive Officer and adopted a resolution establishing that the former Chief Executive Officer is bound by the Articles of Association of the stock company to directly observe the noncompetition clause. The Management Board was instructed to examine all other forms of responsibility linked to the employment contract of the former Chief Executive Officer.

The Supervisory Board discussed and approved the report on business performance in the first six months of 2005 at its meeting held at the end of July, and the report on nine-month business operation at its 7th regular meeting in November 2005. The Supervisory Board discussed the report on open issues regarding spatial problems associated with current business activities, regular major repairs and investments in Luka Koper, d.d.. In line with the future strategy of the Company and before a different proposal for the spatial utilization of facilities is obtained, the Management Board was instructed to obtain a relevant study presenting data on comparable neighbouring ports.

In discussing the bases of the 2006 business plan at its 8th regular meeting, the Supervisory Board called on the Management Board to give more emphasis in the business report to the intensification of activities for the reclassification of cargo types. The Management Board was also instructed to prepare a more detailed analysis of all activities relating to the history of measurements and impacts on the environment.

In accordance with the starting guidelines of the Inter-departmental Committee for the coordination and effective implementation of spatial development of the Port of Koper and its surroundings, as well as the settlement of relations between the state and Luka Koper, d.d., the Supervisory Board entrusted the preparation of a new Strategy of development of Luka Koper up to the year 2015 to the Management Board. The strategy was discussed at the 8th regular meeting of the Supervisory Board held on 9th December 2005 and will be approved after the completion of discussions at one of its first meetings in 2006. In planning the Company's future development, the Management Board proceeded from anticipated trends in the area of transport and logistics, the needs and demands for the optimal utilization of limited space and the preservation of a clean environment, and with the goal of stable growth and profitable operation.

The Company's business plan for the year 2006 was discussed by the Supervisory Board and approved at its 9th regular meeting in January 2006. No major increases in sales are foreseen in 2006, as the Company's market activities will be oriented towards improving the cargo structure, in particular the growth of container and vehicle traffic, and the restriction of certain environmentally sensitive dry bulk cargoes.

The Supervisory Board discussed the 2005 Annual Report at its regular session held in March 2006. It was unanimously established that the Annual Report had been compiled in accordance with applicable legal regulations and that it clearly presents and explains all business events influencing the company's business operation in 2005. An opinion on the financial statements and their consistency with the Annual Report was also prepared by the auditors of Deloitte & Touche Revizja, d.o.o.. In their opinion, the financial statements present fairly, in all material respects, the financial position of the company, its income statement, cash flow statement and statement of changes in equity for the year 2005. The Supervisory Board discussed and positively assessed the independent auditor's report. The Supervisory Board approved the 2005 Annual Report of Luka Koper, d.d. and Luka Koper Group with qualifications.

The Supervisory Board approved the Management Board's proposal for the allocation of distributable profit for the year 2005 in the amount of SIT 5,988,243,661.49, and proposes to the General Meeting of Shareholders that SIT 2,308,196,151.14 be allocated to shareholders and SIT 2,000,000,000.00 to other reserves, while the allocation of the remainder of the distributable profit in the amount of SIT 1,680,047,510.35 shall be decided in subsequent business years. The Supervisory Board also approved the proposed value of a gross dividend per ordinary share in 2005, which shall amount to SIT 260.00.

Luka Koper, d.d. is a successful company with numerous competitive advantages and exceptional development opportunities. Through its business operations the Company is decisively contributing to the promotion of the transport route via the Port of Koper. A well-organized business system, technological improvements, qualified personnel and a responsible attitude towards the environment are a guarantee that the Company is on the right path of development into a leading port and logistic system for the region of Central Europe and beyond.

Marko Starman, MSc
Chairman of the Supervisory Board

Koper, 6th March 2006

Corporate Governance Report

The Management Board of Luka Koper, d.d. manages the Company in accordance with its Articles of Association, the Companies Act, and the Corporate Governance Code for Joint Stock Companies.

The Company observes the Corporate Governance Code

The Corporate Governance Code for Joint Stock Companies was adopted on 18 March 2004. At the end of 2005, the representatives of the Managers' Association of Slovenia, the Association of Supervisory Board Members of Slovenia and the Ljubljana Stock Exchange signed the first amendments to the Code, which came into effect on the date of their signing. The Management Board of Luka Koper, d.d. adopted the following declaration:

The Management Board of the Company has, in the period from the last publication of its Statement of Conformity to the Code on 27 July 2005 until the publication of a summary of the Annual Report on 28 February 2005, observed the provisions of the Corporate Governance Code for Joint Stock Companies, with the exception of certain digressions relating to individual items of the Code.

Item 1.1.: In revising its Articles of Association, the Company shall define the maximization of the Company's value as its key goal alongside other goals pursued by the Company in the performance of its activities.

Item 3.4.6.: The members of the Supervisory Board are not insured against liability.

Item 3.5.5.: More detailed criteria for assessing the existence of conflicts of interest and the measures to be taken in connection with them shall be set forth by the Company in the Rules of Procedure for the work of the Supervisory Board.

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

Item 7.1.2.: The Management Board of the Company shall ensure that in future its announcements are also published in the English language.

Item 7.1.4.: The Company shall publish its unconsolidated financial statements according to Slovenian Accounting Standards and its consolidated financial statements according to International Financial Reporting Standards (IFRS). The latter shall be published for the first time for the year 2005. A proposal for the application of the International Financial Reporting Standards shall be presented to the General Meeting of Shareholders in 2006.

Item 7.2.2.: The Company's Articles of Association specify in detail that the convening of a general meeting is to be published in the Official Gazette of the Republic of Slovenia and in the daily newspaper ''Delo''. In revising its Articles of Association, the Company shall also specify the medium to be used for the publication of all other reports and announcements.

Prospectus for Public Offering

The Company regularly publishes all changes in its prospectus for public offering. Information on the ten largest shareholders as at 31 December 2005 and their shareholdings, as well as data on the total payments, reimbursements and other benefits of the members of the Management Board of the Company are published in the following pages of this 2005 Annual Report.

Rules on trading restrictions and disclosures of trading with shares of the Company and associated companies

The Management Board of the Company has examined the need for prescribing an internal act that will regulate restrictions on trading with the shares of the Company, and established that it presently does not require a more detailed act to regulate this area.

Shareholders' Rights

In accordance with Article 11 of the Articles of Association of Luka Koper, d.d., the Company is managed by the shareholders proportionally to their investments in the share capital of the Company.

The shareholders exercise their rights at general meetings of shareholders, which are generally convened once a year. General meetings are convened by the Management Board, and may also be convened by the Supervisory Board. The convening of a general meeting may also be requested in writing by shareholders jointly holding at least one twentieth of the share capital of the Company. The holders of all classes of shares and their proxies, as well as the members of the Supervisory Board and the Management Board have the right to participate in general meetings of the Company. The holders of ordinary shares and their proxies have voting rights.
Notices of general meetings specifying the agenda and proposed resolutions are published in the Official Gazette of the Republic of Slovenia and in a newspaper determined by the Supervisory Board.

Informing Shareholders and the General Public

In line with the Company's Articles of Association, the Management Board of Luka Koper, d.d. publishes information and reports relevant for shareholders in the Company's bulletin, Luški delničar, which is sent to all shareholders three weeks before a general meeting. Reports are also published in other mass media determined by the Supervisory Board.
Since the shares of Luka Koper, d.d. are listed on the Ljubljana Stock Exchange, the Company publishes relevant information on the stock exchange website, SEOnet.

Two General Meetings in 2005

The most important powers of the General Meeting include approving proposals for the allocation of distributable net profit, discharging the members of the Supervisory Board and the Management Board of their duties, adopting amendments to the Articles of Association, and recalling and appointing members of the Supervisory Board.

In 2005 the Management Board convened two general meetings of shareholders of Luka Koper, d.d.. At the 10th general meeting held on 7th July 2005, the shareholders approved the proposal of the Management and Supervisory Boards for the allocation of distributable net profit. The members of the Management Board and the Supervisory Board were discharged of their duties for the 2004 financial year. The General Meeting also approved the change in the composition of the Supervisory Board.

At the 11th general meeting held on 28 July 2005, the shareholders adopted the amendments to the Company's Articles of Association. The most important among these is the change in the composition of the Management Board from one member to four members.

The Supervisory Board

The Supervisory board of Luka Koper, d.d. is comprised of nine members, who are elected by the General Meeting of Shareholders with an ordinary majority vote for a term of four years and with the possibility of re-election.
Three members of the Supervisory Board are proposed by the Republic of Slovenia, and one member each by the Municipal Council of the Municipality of Koper, the funds of the Republic of Slovenia, and by other shareholders. Three members representing the employees of the Company are elected by the Employee Council of Luka Koper, d.d..
The Chairman of the Supervisory Board is elected by the members of the Supervisory Board.

The functioning of the Supervisory Board is defined in more detail in the Rules of Procedure for the Work of the Supervisory Board. The tasks of the Supervisory Board are also set forth in the Articles of Association of Luka Koper, d.d..

The Supervisory Board constitutes a quorum if at least half of its members are present at a meeting. Resolutions are validly adopted with a majority of all votes cast. In the event of a tied vote, the Chairman's vote is decisive.

In 2005 the composition of the Supervisory Board of Luka Koper, d.d. was changed. At the 10th general meeting held on 7th July 2005, the General Meeting recalled three members representing the State as the majority shareholder, and two members representing funds and minority shareholders. In their place, the General Meeting elected five new members of the Supervisory Board, which is presently comprised of the following members:

- **Marko Starman**, Master of Laws, Chairman, representative of the Republic of Slovenia,
- **Dr. Peter Verlič**, Doctor of Civil Engineering, Deputy Chairman, representative of the Republic of Slovenia,
- **Tatjana Jazbec**, University Graduate in Economics, Member, representative of the employees of Luka Koper, d.d.,

- **Robert Jerman**, Graduate Engineer of Traffic Technology, Member, representative of the employees of Luka Koper, d.d.,
- **Metod Mezek**, University Graduate in Sociology, Member, representative of small shareholders of Luka Koper, d.d.,
- **Alverino Pavletič**, University Graduate Engineer of Traffic Technology, Member, representative of the employees of Luka Koper, d.d.,
- **Boris Popovič**, secondary school graduate, Member, representative of the Municipality of Koper,
- **Marko Valentinčič**, University Graduate in Economics, Member, representative of the Funds of the Republic of Slovenia,
- **Bojan Zadel**, University Graduate Engineer in Civil Engineering, Member, representative of the Republic of Slovenia.

The Supervisory Board meets as the need arises, but at least once every quarterly. The principal powers of the Supervisory Board are:
- supervising the conduction of the Company's business,
- examining and approving the annual report and the proposal for the allocation of distributable profit,
- appointing and recalling the Management Board of the Company,
- deciding on the establishment of business units within the country and abroad, and on the Company's equity participations in corporate entities in the country and abroad,
- granting approval to the Management Board for the conclusion of transactions whose value exceeds five percent of the Company's share capital, and
- granting 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.

Shares held by the Members of the Supervisory Board

On 31 December 2005 the following members of the Supervisory Board held shares of Luka Koper, d.d.: Tatjana Jazbec - 1,435 shares, Robert Jerman - 704 shares, Metod Mezek - 50 shares, Alverino Pavletič - 3,167 shares, Marko Starman - 140 shares, Marko Valentinčič - 50 shares. The other members of the Supervisory Board did not own shares of the Company on the above-mentioned date.

The Management Board

Until 24 July 2005, Luka Koper, d.d. had a one-member Management Board headed by Bruno Korelič, who has resigned his post. On 25 July 2005 the Supervisory Board appointed Marjan Babič, Msc., as Acting Chief Executive Officer.
Luka Koper, d.d. announced a public invitation for applications for the positions of Chairman and members of the Management Board. In October 2005 the Supervisory Board of the Company selected from among the candidates a Management Board comprised of the following members:

- **Robert Časar**, University Graduate in Law, Chairman of the Management Board,
- **Marjan Babič**, Master of Science, Deputy Chairman of the Management Board,
- **Aldo Babič**, University Graduate in Economics, Member of the Management Board,
- **Pavle Krumenaker**, University Graduate Mechanical Engineer, MBA, Member of the Management Board - Employee Director.

Tasks of the Management Board

The Chairman of the Management Board represents and acts on behalf of the joint-stock company independently and without limitations. In the Chairman's absence this task is performed by his/her deputy.
Each member of the Management Board represents and acts on behalf of the Company within his/her area of responsibility, and is competent and responsible for giving instructions, managing, organizing, coordinating and supervising business operation and the conclusion of business transactions.

The functioning of the Management Board is set forth in the Rules of Procedure for the Work of the Management Board, and its powers are defined in the Articles of Association of Luka Koper, d.d..

Shares Owned by the Members of the Management Board

On 31 December 2005 the members of the Management Board owned 4,256 shares of Luka Koper, d.d., of which Deputy Chairman Marjan Babič held 928 shares, and member Pavle Krumenaker held 3,328 shares. The Chairman and the fourth member of the Management Board did not own shares of the Company.

Management and Governance of Associated Companies

Companies in which Luka Koper, d.d. has at least a five percent ownership share and which own shares of Luka Koper, d.d. (on 31 Dec 2005):

Company	Share of Luke Koper, d.d. in other company (in %)	Participation of other company in the capital of Luka Koper, d.d. (in %)
Intereuropa d.d.	24.56	0.03
Banka Koper d.d.	10.00	0.87

The owners of at least five percent of LKPG shares on 31 Dec 2005 are:
- the Republic of Slovenia
- Slovenska odškodninska družba (Slovene Restitution Company)
- The Municipality of Koper, and
- Kapitalska družba.

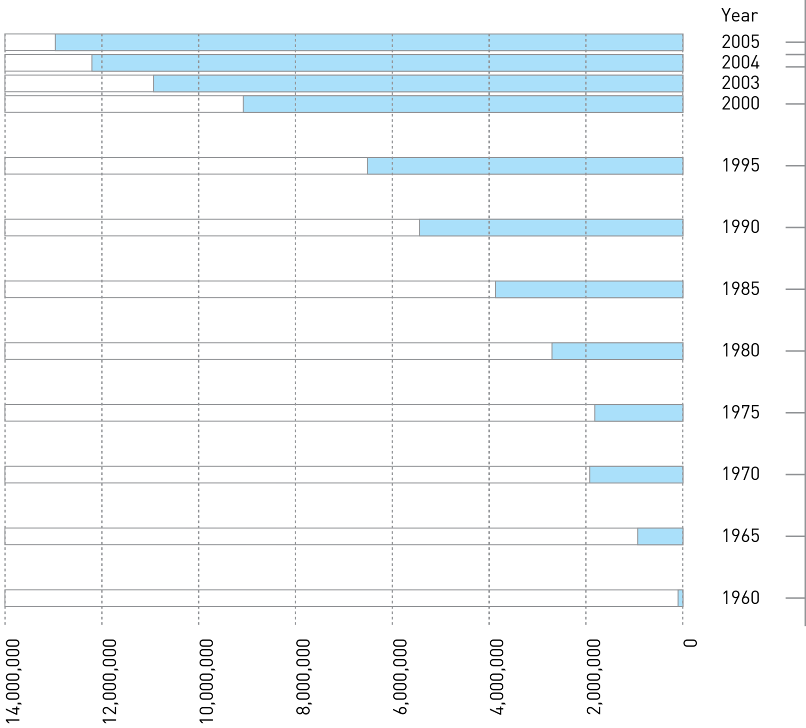
There are no cross-holdings between any of the above-mentioned companies.

Financial Calendar for the Year 2006

28 February	Publication of unconsolidated financial statements.
31 March	Publication of consolidated financial statements.
31 May	Publication of a summary of the audited, unconsolidated and consolidated annual report. Publication of interim report for the first quarter.
End of June / beginning of July	General meeting of shareholders. Dividend belongs to owners who are entered in the share register of Luka Koper, d.d. after the general meeting.
31 August	Publication of a summary of the semi-annual report.
September	Payment of dividends.
30 November	Publication of interim report for the nine-month period.

Key Achievements and Growth

Maritime throughput in tons and major infrastructural achievements



Year	
2005	**new container crane**
2004	**European Energy Terminal**
2002	**new warehouses on Pier II**
1999	**parking garage**
1996	**Car Terminal**
1990	**Alumina Terminal**
1988	**Grain silo**
1984	**Dry Bulk Cargo Terminal**
1979	**Container Terminal**
1967	**railway line Koper - Prešnica**

Other Major Business Achievements in the Past Decade

1996: ownership and organizational transformation into a stock company.
1997: ISO 9002 Quality Certificate.
2000: ISO 14001 Certificate for environmental management system and ISO 9001 Certificate.
2001: concession for the management of the Container Terminal in Trieste, Italy.
2002: acknowledgement of the Republic of Slovenia for business excellence.
2003: ISO 9001:2000 Certificate, commencement of systematic marketing of integral logistic services.
2004: status of a EU port and border inspection post for goods entering and leaving the EU customs zone.
2005: European Quality Award for business excellence granted by EFQM; initiation of project entitled "Living with a Port" and intensified, planned cooperation with the local community and reconciliation of open issues with the state.

Significant Events in 2005

January

- The Veterinary Administration of the Republic of Slovenia issued a decision under which a category 1 intermediate plant for the temporary storage of ship kitchen wastes was registered in Luka Koper, d.d..

February

- A consultation entitled "Development Dilemmas of Luka Koper" was held in the National Assembly of the Republic of Slovenia.

March

- Discussions on the development of the port were conducted with members of the local communities of Semedela, Za gradom, Žusterna and Hrvatini.

April

- The Government of the Republic of Slovenia adopted the Decree on the state land use plan for the second railway track on the Koper-Divača line.

May

- The process of building a local partnership between the municipality, Luka Koper, d.d. interest groups and local communities was initiated in the form of gatherings and workshops under the title of "Living with a Port".

July

- The Company received the European Award for Business Excellence granted by the European Foundation for Quality Management.
- A new container crane was acquired.

September

- An agreement was signed with the Government on the performance of services relating to the prevention of sea pollution and the elimination of its consequences.

October

- A two-day conference entitled "Port Management & Logistics" was organized by the Company in Portorož for the second consecutive year.

November

- A presentation of our Company was given at the London Stock Exchange on Slovene Capital Market Day.

December

- The Company handled a record total cargo volume of 13 million tons.
- The Company received a decision of the Ministry of the Environment and Spatial Planning confirming the plan for the acceptance of ship-generated waste and cargo residues in the Port of Koper.

The flow of goods traveling through the Port of Koper is growing day by day.

We are approaching 15 million tons of handled cargo per year. New goods are also arriving because of Slovenia's openness, its position in the heart of Europe, and our position at the crossroads of two important European corridors - the fifth and tenth corridors. But most important of all is still the quality and reliability that we guarantee to our partners, buyers and co-workers.


LUKA KOPER
LUKA KOPER
MAERSK
MAERSK
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MAERSK
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RIALT

Business Report

Development Strategy

The Supervisory Board of the Company adopted the "Development Strategy of Luka Koper, d.d. for the Period up to the Year 2015" at its meeting held in the beginning of March 2006.

Vision

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

Mission

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

In the new development period, Luka Koper, d.d. will further upgrade its past achievements and fulfill its vision on the basis of the following values:
- knowledge,
- enterprise,
- partnership,
- respect,
- responsibility.

Strategic Orientations

- By controlling all links in the transport chain, we continue to be a recognizable provider of logistic services.
- We have developed an efficient port system and distribution centre by creating added value on the basis of technologically optimized processes and highly diversified commodity groups.
- We are preserving a long-term successful business system through the development of modern and coordinated internal operation which improves profitability and ensures the growth of asset value.
- We are devoting attention to sustainable development and maintaining a balance in relations with the entrepreneurial, natural and institutional environments and other interest groups.

Based on the fundamental values observed by the Company in all areas of its operation, we are implementing our orientations in five key business segments:
- marketing and development of our services,
- organization and management of personnel,
- infrastructural and technological development,
- management of financial assets,
- attitude towards the broader society in general.

Business Policy

The development of Luka Koper, d.d. and the Luka Koper Group is based on three key guidelines:

1. Efficient and high-quality performance of services.
- We are upgrading the attained quality level of services.
- We are ensuring long-term competitiveness.

2. Long-term and successful business operation.
- We are preserving and improving profitability.
- We are augmenting the scope and improving the structure of business operations to the benefit of more profitable services.
- We are effectively controlling costs.

3. Observance of the principles of sustainable development from the environmental, spatial, social and broader societal aspects.
- We are reducing the potential burdening effects of our activities on the environment.
- We are introducing technological solutions aimed at minimizing the impacts of our activities on the environment.
- We are efficiently managing the Port of Koper area.

- We are actively cooperating with educational, research, health, cultural and sports institutions in the area and in the broader region.

Key Opportunities

In our future business operations and activities, Luka Koper, d.d. will consider the following key orientations:

- integral management of specialized terminals for all types of goods at a single location;

- smooth-running business, adaptable and quality services tailored to meet the demands of customers;

- growing recognizability of the transport route through Koper and the Company's trademark;

- motivated and qualified personnel;

- successful and efficient business operation and stable financial position;

- geographic position close to attractive developed and emerging markets;

- growth of international trade;

- development of goods distribution activities in the direct hinterland - generating new activities.

Plans for the Year 2006

- We will increase the volume of handled cargo at the Fruit, Container, Car and Liquid Cargo Terminals.

- We will continue to implement our policy of planning and constant development of human resources potentials.

- We will invest approximately SIT 6.5 billion in the modernization and enlargement of port capacities.

- We will continue to expand the scope of port and logistic services. We will increase the quantity of handled cargo to 13.1 million tons.

- We shall maintain and improve profitability by increasing and in particular improving the structure of services to ensure their greater profitability on the one side and by effective cost control on the other side.

- We shall attain 17.4 units of net result per 100 units of operating revenues and generate total revenues in the amount of SIT 3.6 billion.

- We shall endeavour to carry out projects involving the development of traffic infrastructure, particularly in the 5th European corridor, and bear responsibility for maintaining a balance between entrepreneurial interests and the principles of sustainable development.

We shall contribute to the achievement of our goals through the integral management of financial resources as well as financial and other business risks. We shall also continue to strengthen business excellence in profit centers and subsidiaries, and repeatedly conduct a self-assessment to verify the effectiveness of implemented improvements.

Macroeconomic Environment and Current Situation in the Sector

Current Situation in the Sector

For several years now, the transport-logistics sector has witnessed a strong tendency towards the containerization of goods. Logistic providers are also adapting to this trend. Terminals constructed at logistic knots and at the crossroads of transport routes are being transformed into distribution centers. The desire for the most complete integration of individual providers in the logistic chain is reflected in the collection and centralization of information in order to ensure more effective supervision of integrated chains, the optimization of processes within these chains, and the quality management of transport-logistic services tailored to the needs of customers. This is followed by increasingly more integral support to customers, enabling them to carry out all their obligations in simplified procedures and at a single location.
Transport and logistics are sectors which control the complex infrastructural systems of national and interstate departments. Consequently, in line with EU directives, which give priority to competitive market conditions, the liberalization of the market of (still) controlled services and the privatization of public property, where ports and railways are of key significance, are currently in progress. Particularly important in this respect is to define the appropriate legal forms and provisions regulating purchase or concession relations between private administrators and the state.
A major trend in this sector is also the redirection of goods transport from roads to more environment-friendly means of transport. This is an opportunity for railway and maritime highways, where ship cargoes are generally transported for shorter distances. For our port, the most interesting areas are the Adriatic-Ionic region, and the eastern and western Mediterranean regions.

Increasingly more relevant in the transport-logistic sector are environmental issues that are linked to the impacts of large quantities of goods being handled and the infrastructural interventions required for this purpose.

Macroeconomic Environment

In its economic forecast for the period between 2005 and 2007, the European Commission predicted increased economic growth in EU member states. The forecast for this year is 2.1 percent, and 2.4 percent in 2007. Slightly lower economic growth is foreseen in the Euro zone, with a 1.9 percent forecast for this year and 2.1 for next year. The Commission also announced a lower unemployment rate, which in comparison with 2004 is expected to drop 0.9 percent by the year 2007. The forecast is less optimistic for inflation, which will presumably rise due to high oil costs. The inflation rate is expected to drop back to 1.9 percent by 2007.
The revival of economic growth in the European Union was, among other, also influenced by world economic growth, which in the current year is assessed at 4.3 percent. High growth rates continue to be recorded in international trade, which according to the estimates of the European Commission, will attain seven percent this year.
The European Commission nevertheless calls attention to certain risks, such as the further increase of oil prices.

The growth rate of basic necessities in Slovenia was 2.3 percent on an annual level. In the period from 1st January to 31 December 2005, the value of the American dollar according to the medium exchange rate of the Bank of Slovenia rose 14.9 percent and was on average worth SIT 192.80. The average value of the European currency (EUR) was SIT 239.6.

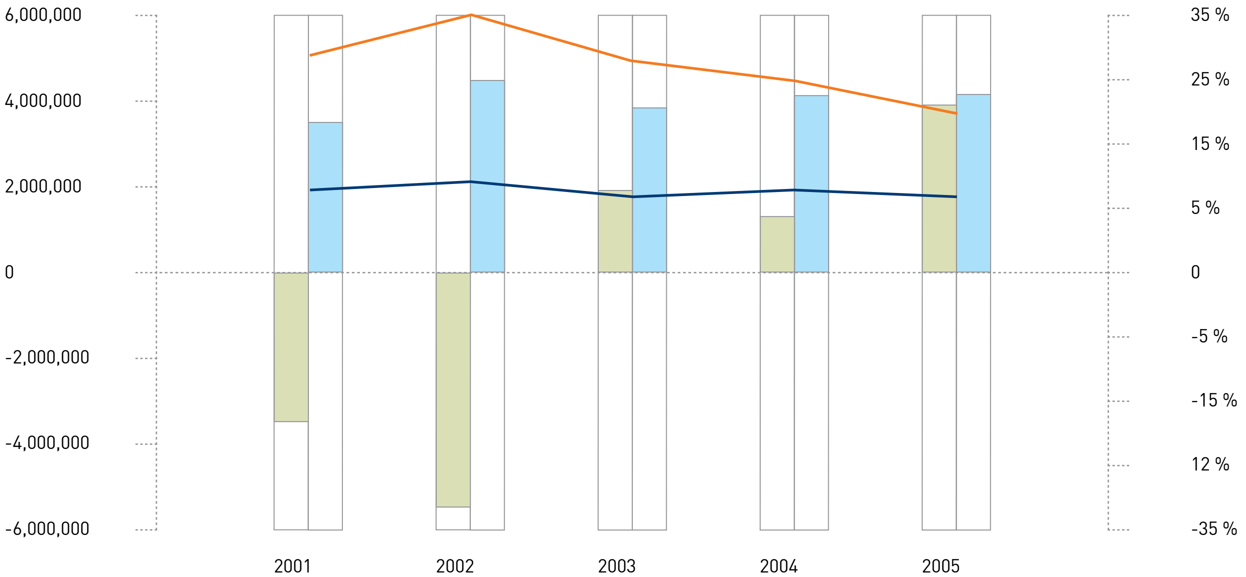
Analysis of Business Performance

Sharp Rise of Net Profit

In 2005 Luka Koper, d.d. recorded an operating profit of SIT 3.896 billion, which is 167 percent higher than the previous year. The ratio of operating profit to total revenues was equal to 18.8 percent and is 116 percent higher than the same ratio at the end of 2004.
The Company registered SIT 4.189 billion in net profit, which is on the level of net profit realized in 2004.

The depreciation costs were increased by SIT 5.3 billion in 2001 due to the reconciliation of the carrying value of warehouses for general cargos, air-conditioned warehouses for fruit, reservoirs, silos and railway infrastructure. In 2002, owing to less favourable market results and the consequently poorer utilization of capacities, the carrying value was reconciled with the replacement value for individual assets in accordance with Slovene Accounting Standards. The difference of SIT 6.9 billion was applied towards the decrease of purchase value and asset allowances in the balance sheet, while the same amount was recorded under revaluatory operating expenses of fixed assets in the income statement.

Movement of net profit, operating profit, ratio of net profit to total revenues and return on equity ratio for Luka Koper, d.d. in the period from 2001 to 2005



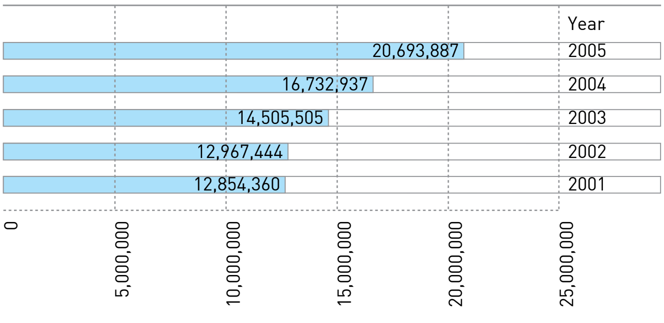
in thousands of SIT

operating profit or loss
net profit margin
net profit or loss for the current year
net return on equity ratio

Higher Operating Revenues

The Company generated SIT 20.69 billion in operating revenues in 2005, which is 24 percent more than in the previous year. This may primarily be attributed to the record 13.07 million tons of cargo volume and the improved structure of services with an increased share of container and car cargoes. Also contributing to the disclosed operating revenues were revaluatory revenues in the amount of SIT 618 million, generated through the sale of certain fixed assets to the Municipality of Koper for the construction of the northern bypass road. The growth of operating revenues was further influenced by the increased scope of logistic services.

Growth of operating revenues of Luka Koper, d.d. in the period from 2001 to 2005



in thousands of SIT

Within the scope of operating revenues, 80 percent of revenues are recorded in foreign currencies, of which 63 percent in EUR.

Currency structure of operating revenues in Luka Koper, d.d.

Currency	Amount in currency	Amount in 000 SIT	Percent	Index 2005/04
EUR	54,671,380	13,101,038	63	132
SIT	4,090,382,830	4,090,383	20	156
USD	18,133,804	3,502,465	17	84
Total (SIT)		20,693,887	100	124

Basic Operating Ratios

Revenue Profitability

The net profit margin (net profit/operating revenues) shows a trend of decreasing profit after tax in operating revenues as the consequence of lower profit from financing activities, which in past years generated high revenues from the sale of financial investments.

Per every SIT 100 of sales, the Company realized SIT 20 of net profit, which is 19 percent below the 2004 figure. The net profit to total revenues ratio (net profit/total revenues) amounted to 18.5 percent, which is 7 percent less than the previous year.

The net profit to total operating revenues was 18.8 percent in 2005 and exceeded the 2004 value by 116 percent.

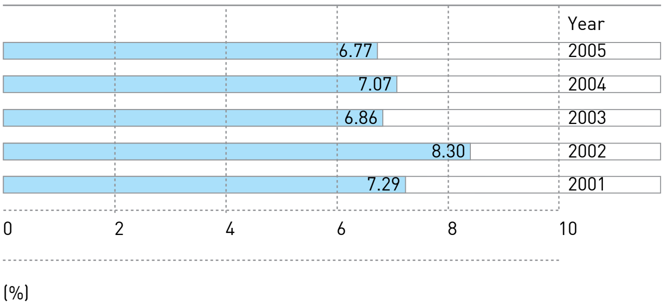
Return on Equity

The net return on equity ratio (net profit for the year/average capital (excluding net operating profit for the year) discloses, on the last day of the year, a five percent lower value than in the previous year.

Change of revenue profitability and return on equity in Luka Koper, d.d.

	2001	2002	2003	2004	2005	Index 2005/04
Net profit margin (%)	28.3	34.7	26.8	25.0	20.2	81
Net profit to total revenues (%)	-26.3	-42.6	13.7	8.7	18.8	216
Net profit to total revenues ratio (%)	16.8	18.3	21.8	19.8	18.5	93
Net return on equity	0.076	0.087	0.071	0.073	0.070	96
Dividend to basic equity capital	0.199	0.121	0.143	0.157	0.157	105
Return on owner's capital (%)	7.3	8.3	6.9	7.1	6.77	96

Movements in return on shareholders' equity in Luka Koper, d.d.
for the period from 2001 to 2005



Operating Efficiency

The total efficiency ratio, which shows the relation between total revenues and expenses, is lower than in the previous year due to lower financial revenues.
The operating efficiency ratio shows only the relation between operating revenues and expenses, and reveals the operating revenues generated by the Company per SIT 100 of operating expenses. Both ratios disclose operating efficiency under the conditions that the Company actually discloses some level of net profit.

Added Value per Employee

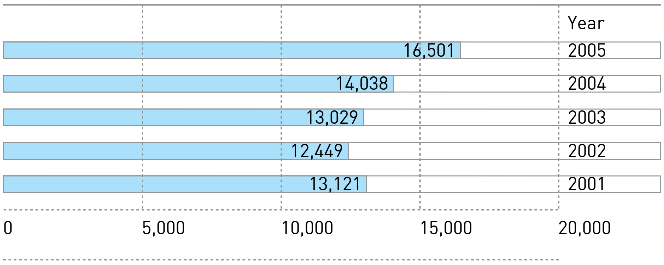
In 2005 Luka Koper, d.d. realized SIT 16.5 million of added value per employee, which represents an 18 percent increase over the previous year. The total added value amounted to SIT 11,204 billion or 23 percent above the previous year's figure.

Efficiency and added value per employee in Luka Koper, d.d.

	2001	2002	2003	2004	2005	Index 2005/04
Operating efficiency ratio*	1.18	1.12	1.16	1.10	1.23	112
Total efficiency ratio	1.23	1.25	1.30	1.30	1.28	99
Added value per employee (000 SIT)	13,121	12,449	13,029	14,038	16,501	118

* To enable a realistic presentation, the additional depreciation costs recorded in 2001 and the revaluatory operating expenses of tangible assets for 2002 have been excluded from the data used for calculation of the operating efficiency ratio. A ratio value above one indicates the intensity of profit generation.

Growth of added value per employee in Luka Koper, d.d. in the period from 2001 to 2005



Operating Costs

Operating costs amounted to SIT 16.8 billion, which is ten percent higher than in the previous year. This was mainly the consequence of subcontractors and forwarding costs as integral parts of logistic services involving the transport of fruit, vegetables, coal, glass and cars. In addition to costs relating to the volume of cargo handled, operating costs also increased due to the payment of costs of cleaning the sea and coast due to an oil spill in the port aquatorium. The procedure for the payment of such costs by the polluter is in progress. Increased costs were also influenced by stallage and indemnity items, which until 1st January 2005 were disclosed under extraordinary expenses.

Operating costs of Luka Koper, d.d. for the period from 2001 to 2005 (in thousands of SIT)

	2001	2002	2003	2004	2005	Index 2005/04
Operating costs	16,264,742	18,491,520	12,524,421	15,276,262	16,797,632	110
Costs of material and goods sold	1,590	398	366	794	1,002	126
Costs of material	670,126	716,735	756,308	872,188	1,044,007	120
Costs of services	3,803,393	3,917,804	4,254,434	5,577,637	6,540,941	117
Allowances	7,944,041	9,529,795	2,222,654	3,038,987	3,196,274	105
Depreciation	7,895,388	2,603,703	2,171,191	2,982,481	3,163,272	106
Revaluatory operating expenses	48,653	6,926,092	51,464	56,506	33,002	58
Long-term provisions	200,000	0	0	116,300	0	0
Labour costs	3,323,939	3,837,083	4,290,421	4,521,296	4,734,017	105
Other costs	321,653	489,705	1,000,238	1,149,060	1,281,391	112

Costs of Material

Costs of material increased by 20 percent over the previous year. The highest increase in comparison with 2004 was registered by costs of auxiliary materials. This is primarily due to the increased consumption of wood paint as the result of higher timber cargo volumes. SIT 19 million was allocated for protective means, which represented a 40-percent increase over the previous year, amounting to a value of SIT 215 million.
Our Company's operation is also influenced by the growth of fuel prices, which in the cost structure account for two percent of all costs. The average price of Eurodiesel D2 fuel was approximately SIT 219, which is 20 percent above the average value in the previous year. Fuel consumption increased by 2 percent in comparison with the previous year and amounted to 2.17 million litres. Energy costs were also higher and accounted for SIT 283 million, which is five percent more than in 2004. The Company consumed 14.5 million kW hours, representing a five-percent increase over 2004. Electricity consumption per handled ton of total cargo volume amounted to 1.08 percent, which is three percent lower than in the previous year.

Higher Costs of Services

Costs of services represent 39 percent of all operating costs and amounted to SIT 6.54 billion. In comparison with 2004, these costs increased by 17 percent.
More than half of all costs of services comprise labour costs of subcontractors and maintenance costs. The costs of subcontractors (together with labour contracts) attained SIT 2 billion, which is 20 percent higher than in 2004. These costs were significantly affected by the higher prices of service providers and the labour required for handling goods as the result of the changed cargo structure. Maintenance costs were two percent lower than those attained in 2004. The Company allocated SIT 323 million for the maintenance of port infrastructure assets, which is four percent less than in the same period in 2004.
Costs of services also include a lease contract for operational shore and land in the Port of Koper, which represented a total of SIT 224.6 million in lease costs.
The costs of transport services, which amounted to SIT 602 million in the previous year, have been rising steadily in recent years, mostly due to the increased scope of logistic services involving the transport of fruit, vegetables and coal. The result of logistic services is also reflected in the costs of other services, which exceeded the 2004 figure by 67 percent and amounted to SIT 1.4 billion. Up to the year 2005, the costs of logistic services were recorded according to the net principle (decrease of revenues from logistic services).
The amount of funds allocated for employee training increased by one third over 2004, and amounted to SIT 51 million.
The costs of fairs, advertising, promotion and hospitality also include sponsorship costs. In the past year SIT 53 million was allocated for this purpose.
The costs of information support were nine percent higher than in 2004. SIT 593 million was allocated for this purpose in 2005.

Depreciation and Revaluatory Operating Expenses

Depreciation costs were 6 percent higher than in 2004 due to the purchase of fixed assets.

Labour Costs

Labour costs increased by 5 percent over the previous year. This was due to the increase in the number of employees from 650 to 679 and the growth of the coefficient by 3.5 percent in August. The average gross salary in Luka Koper, d.d. increased by almost two percent and amounted to SIT 399 thousand.

Other Costs

Other costs in the amount of SIT 1.28 billion increased by 12 percent over 2004.
Half the costs (SIT 630 million) represent the fee for building land use. According to the issued decree, the Company paid SIT 804 million for 2005, while accrued liabilities were decreased by SIT 174 million after being recorded too high in 2004.
The costs of stallage, rents and indemnities, which in previous years were recorded under extraordinary expenses, have now been transferred to the category of other costs. The total costs specified in the above-mentioned categories amounted to SIT 207 million.
The Company allocated SIT 240 million for eliminating the consequences of the oil spill in the port aquatorium.
The donations of the Company amounted to SIT 32 million, which is 5 percent less than in 2004.

Financing Activities and Extraordinary Items

The fundamental goals of the Company's financial policy were oriented towards the rational management of financial assets of the stock company, ensuring the most favourable payment ability, profitability and security of investments. Financing activities in past years generated higher incomes due to the sale of financial investments.
The total financial revenues amounted to SIT 1.9 billion, which is 55 percent less than in 2004. The highest share of the total financial revenues was contributed by revenues from dividends and other shares in the amount of SIT 838 million, which is mainly the result of dividends from Banka Koper, Intereuropa, Krka and Probanka.
Interest revenues decreased by 28 percent in comparison with the year 2004 and amounted to SIT 464 million. Lower interest revenues are primarily the result of reduced investments in deposits, lower interest rates on standard banking products, and the substantially reduced amounts of loans approved to other companies.

Revenues from exchange gains amounted to SIT 186 million. Revenues from the sale of financial investments are the consequence of the sale of shares of the companies Autocommerce, Prva Pokojninska Družba, Probanka and Factor banka.
Financial expenses were 16 percent below the 2004 figure and amounted to SIT 735 million. The largest portion of financial expenses was represented by revaluatory financial expenses in the amount of SIT 295 million, which were the result of the revaluation of investments in the Medicor and Bonifika companies due to impairment. The largest portion of other financial expenses, that is SIT 254 million, was represented by interest expenses and expenses related to exchange losses in the amount of SIT 184 million.

Review of financial revenues and expenses of Luka Koper, d.d. for the period from 2001 to 2005 (in thousands of SIT)

	2001	2002	2003	2004	2005	Percent	Index 05/04
Financial revenues	8,397,716	11,321,462	3,105,920	4,293,395	1,936,907	100	45
Interest revenues	258,220	1,965,381	1,110,875	647,057	463,972	24	72
Revenues from dividends and other shares	913,087	153,182	557,469	768,806	838,152	43	109
Revenues from revaluation of receivables for value preservation	414,753	260,633	717,617	291,131	185,702	10	64
Revenues from loans granted		9,191	6,123	3,239	0	0	0
Gains on sales of investments	6,806,704	8,909,558	655,635	2,513,322	353,951	18	14
Other financial revenues	4,953	23,517	24,108	26,465	15,641	1	59
Revaluatory financial revenues due to strengthening	0	0	34,094	43,374	79,489	4	183
Financial expenses	1,308,113	1,146,847	1,159,531	870,435	735,168	100	84
Interest expenses	81,922	206,056	192,189	420,170	254,448	35	61
Expenses from revaluation of debts for value preservation	219,310	360,311	386,299	221,877	183,509	25	83
Expenses from sale of investments	99,953				1,338	0	
Other financial expenses	212	102,697	38,716	21,365	1,202	0	6
Revaluatory financial expenses from impairment	906,717	477,783	542,328	207,023	294,670	40	142
Profit from financing	7,089,603	10,174,615	1,946,389	3,422,961	1,201,739		35

Asset and Liability Structure

The asset and liability structure is dominated by fixed assets and long-term investments. Fixed assets accounted for a 47-percent share, while 47 percent of the balance sheet total or the total assets was represented by long-term and short-term group investments in the amount of SIT 34 billion.
The Company allocated SIT 4.3 billion for investments in intangible assets, equipment and buildings.
The asset structure points to the predominantly long-term character of assets, which is confirmed by the values of long-term and basic investment ratios. The latter shows the share of fixed assets in the total assets, while its lower value in recent years is the consequence of value adjustments of fixed assets.
The high levels of the equity financing rate and the long-term financing rate exhibit a high coverage of liabilities with capital and long-term liabilities. Both ratios reflect the high financial stability of operations. This is also confirmed by the equity to operating fixed assets ratio, which shows that all fixed assets are financed with the owner's equity. The current, quick and acid test ratios also indicate an extremely stable financing situation.

Financing, investing and short-term liability coverage ratios in Luka Koper, d.d.

	2001	2002	2003	2004	2005	Index 2005/04
Equity financing rate	0.86	0.90	0.84	0.82	0.84	103
Long-term financing rate	0.88	0.93	0.85	0.87	0.95	110
Operating fixed assets to assets rate	0.58	0.46	0.45	0.47	0.47	102
Long-term assets rate	0.75	0.80	0.86	0.81	0.82	100
Equity to operating fixed assets	1.49	1.95	1.84	1.75	1.77	101
Acid test ratio	1.56	1.83	0.51	0.90	2.75	306
Quick ratio	1.93	2.63	0.91	1.39	4.08	293
Current ratio	1.93	2.63	0.92	1.39	4.08	293

Sources of Funds

Assets in the amount of SIT 75 billion are to a great extent financed from own sources. The value of ownership capital was equal to SIT 63 billion at the end of the year and was comprised of equity revaluation adjustments in the amount of SIT 23.3 billion and revenue reserves in the amount of SIT 22.2 billion.

The Company's operations are not burdened by long-term operating liabilities, while long-term financial liabilities represent 11 percent of the total assets.

Costs according to functional groups in Luka Koper, d.d. (in thousands of SIT)

	2004	2005	Index 2005/04
Production costs	8,961,852	10,940,875	121
Costs of material and goods sold	794	1,002	126
Costs of material	660,273	801,303	121
Costs of services	3,482,066	4,989,819	141
Depreciation	1,944,385	2,164,152	111
Labour costs	2,875,128	2,985,600	104
Costs of sales	530,362	614,870	116
Costs of material	6,726	8,109	121
Costs of services	273,991	300,549	110
Depreciation	10,183	9,653	95
Labour costs	142,318	213,739	150
Other costs	97,144	82,820	85
General and administrative service costs	5,783,254	5,240,885	91
Costs of material	205,189	234,596	114
Costs of services	1,821,579	1,250,572	71
Allowances	1,084,420	1,022,470	94
Depreciation	1,027,913	989,467	96
Revaluatory operating expenses	2,448	2,945	120
Revaluatory operating expenses of operating current assets	54,059	30,057	56
Long-term provisions	116,300	0	0
Labour costs	1,503,850	1,534,677	102
Other costs	1,051,916	1,198,571	114
Operating costs	15,275,468	16,796,630	267

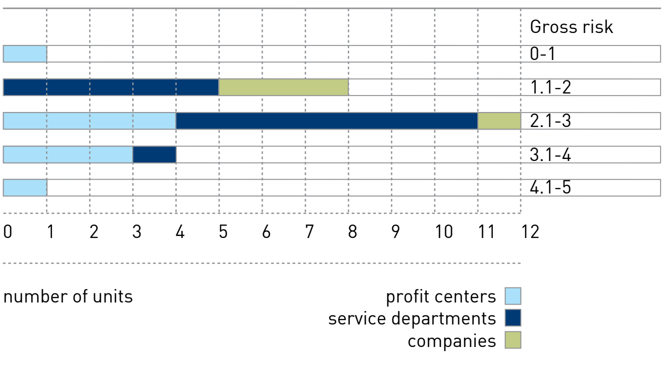
Internal Audit

The Internal Auditor performs the independent supervision of business operations and advises managers on all levels regarding the accuracy and orderliness of business operation of the Luka Koper Group. Internal Audit functions within the Internal Audit and Control Service, which is directly responsible to the Deputy Chairman of the Management Board of Luka Koper, d.d..
In 2005, Internal Audit conducted internal auditing of the Company's business operation in accordance with professional principles and standards of internal auditing, the code of business ethics for internal auditors, and the rules for the conduction of internal audits as adopted by the Company's Management Board.

On the basis of factors of gross audit risk of an audit unit, which are classified into ten classes, the Internal Auditor evaluates, on a yearly basis, the riskiness of an auditing environment. Generally speaking, the audit risk of audits units on the last day of the previous year was relatively low. The gross audit risk of most units range from one to three. There are no units with high audit risk, that is seven or higher.

The Internal Auditor conducted four regular and two extraordinary internal audits in 2005. No major violations were determined during the reviews. The Internal Auditor submitted 73 written recommendations, of which 87 percent have been implemented. The remainder are in the course of being completed.

Gross audit risks of audit units as at 31 December 2005



Ongoing supervision is performed by the line management through the engagement of its employees. The Internal Auditor conducts independent audit reviews of basic business functions in all operational-organizational parts of the Luka Koper Group from the perspective of:
- functioning of internal controls in business processes,
- protection of assets and property of Luka Koper,
- legality, rationality, correctness and orderliness of operations and whether these are up-to-date,
- rationality and efficiency of business processes and information systems, as well as the use of information technology,
- cost efficiency and effectiveness of utilized funds and the implementation of adopted development goals, business policy, plans and other business decisions,
- reliability, integrity and accuracy of accounting and other data and information, and
- execution of authorizations for decision-making and use of funds.

Risk Management

Business Risks

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

- the introduction of integral logistic services, which will enable the Company to complete equally with other ports and make better use of the competitive advantages stemming from our geographic position;
- the growing competition among land transport providers, which offer our customers greater possibilities in selecting a transporter; this aspect will particularly gain importance after the liberalization of the railway operator market and the entry of foreign service providers;
- the development of partner relations with our customers, which increases their loyalty and ensures the continuation of existing business relations;
- the structure of cargoes according to markets and types reveals the satisfactory diversification of markets and the diversity of cargoes, thus reducing the risks related to economic and political conditions in individual markets;
- we are improving the quality of services by encouraging innovative activities and project collaboration with other providers in the chain, as well as by scientific-analytical monitoring and measurement of the level of services.

Financial Risks

Luka Koper, d.d. adequately controls all financial risks. The most important among these are liquidity and currency risks.
- Liquidity risk is controlled by regularly monitoring cash flows and matching the maturities of liabilities and receivables. The absence of liquidity problems in the Company is confirmed by the credit rating report issued by I, d.o.o., a credit rating company operating under the authorization of Dun & Bradstreet. The above-mentioned company also awarded to Luka Koper, d.d. the highest possible grade for its payment discipline, that is a payment key of 80. This means that the Company settles all its liabilities by their maturity dates.
- Exposure to currency risks is reduced primarily by the use of internal hedging techniques, which have proved to be the most appropriate for our Company. The negative effects of changing values of foreign currency receivables are managed by establishing liabilities in the same underlying currencies and regularly monitoring exposure levels. By continuing its systematic transition to the European currency, the Company significantly reduced its exposure to currency risks in 2005.
- Changing interest rates do not represent any major risks to the Company, as both the structure of our sources of financing and the credit rating of our Company enable us to obtain funding under the most favourable terms and with a large degree of flexibility. The servicing of loans is also maturity-balanced in relation to financial liabilities and assets according to different maturities. In 2005 our Company received a higher credit rating than in the previous year, as the most recent rating is 5A1 (previous rating 5A2). On this basis, our overall business standing was defined by the credit rating company as excellent and practically without risk.
- Credit risk is controlled by using an active approach in the conclusion of financial agreements and adequate security instruments.
- The counterparty default risk is reduced by actively monitoring the credit rating reports of our customers. One of our particularities is doing business through agents, leaving us with very few direct contacts with customers from around the world. The Company also makes use of liens on warehoused goods, which is realized if a customer fails to settle all of its obligations.

Investment Policy

Financial Investments

On the last day of the financial year, long-term financial investments attained a value of SIT 25.7 billion, representing 34 percent of all assets. In 2005 the Company increased its long-term investment in the shares of the Intereuropa, d.d. company, and currently has a 24.56-percent ownership stake in this associated company.
Short-term financial investments amounted to SIT 8.6 billion on 31 December 2005, which represents a decrease of SIT 319.5 million compared to the previous year. The most noticeable changes among short-term financial investments were registered in the shares of Autocommerce, d.d., which were sold in their entirety.
Owing to more favourable interest rates, part of the surplus funds was invested in the certificates of deposit of business banks, whose value increased by SIT 2.49 billion.

Alongside the regular provision of financial sources for servicing the basic operating activities and investments, any cash surpluses will be allocated to various financial investments. In selecting financial investments, we shall consider the maturity of an investment, its return and risk, transferability and value volatility.

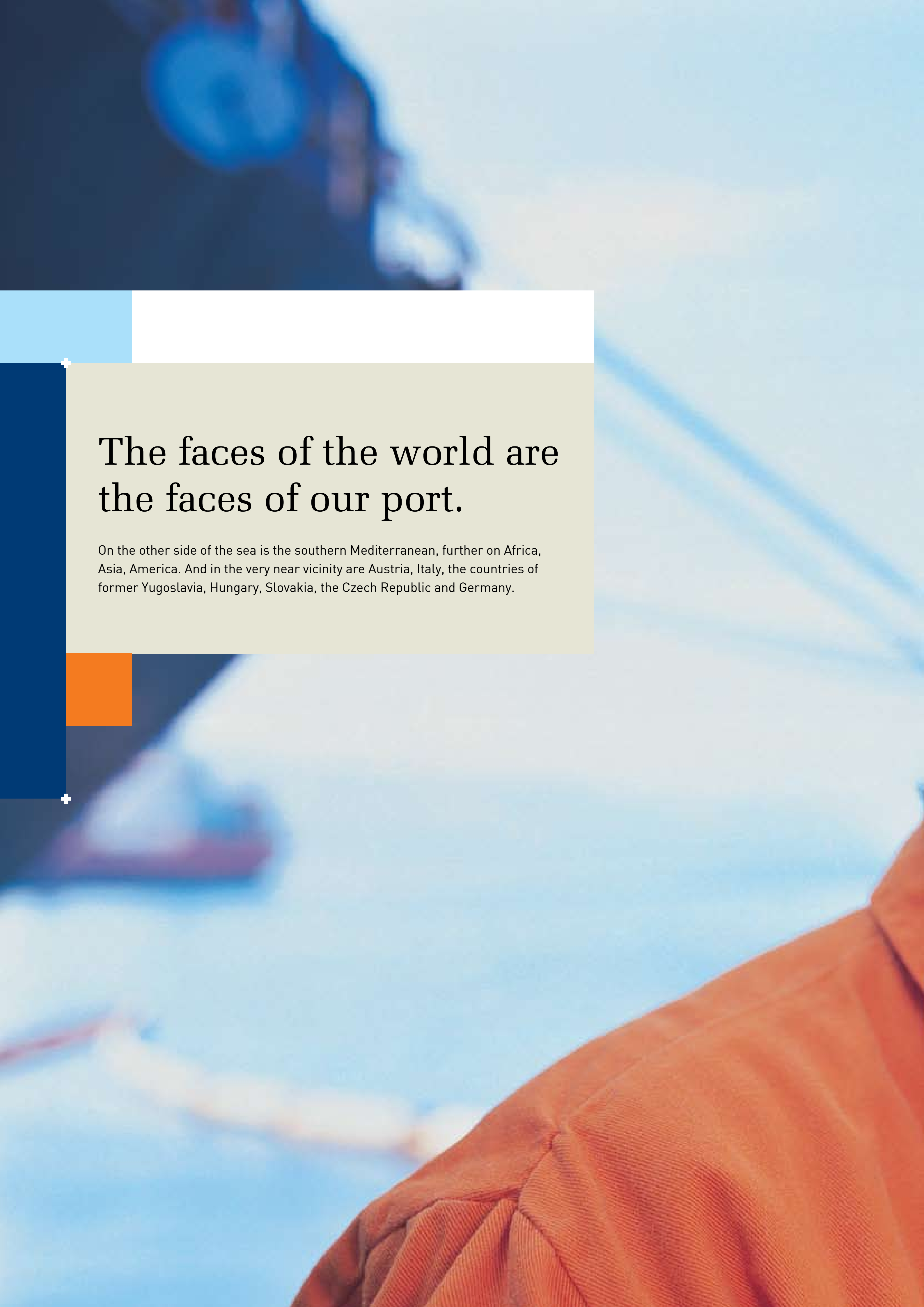
Technological Modernization of Equipment and Machinery

The Company directed its investment policy primarily to the technological modernization of equipment and machinery for cargo handling and manipulation of all types of goods and the renewal of existing closed/open warehouse facilities.
In 2005 the Company allocated SIT 4.3 billion for investments.

The major investments in 2005 were:
- wind barrier at the coal depot at PC European Energy Terminal,
- asphalting of cassette 1A for car storage,
- rearrangement of the woodcutting plant for the needs of PC Car Terminal,
- renewal of multi-purpose warehouse number 19 for PC General Cargo Terminal,
- renewal of reservoir R8 for phosphoric acid at the PC Liquid Cargo Terminal,
- renewal of security tank-pit of group of tanks number 100 at PC Liquid Cargo Terminal,
- renewal of electric controls on the old gantry crane at the PC European Energy Terminal,
- purchase of new transtainer for the PC Container Terminal,
- purchase of industrial excavator for handling scrap iron at the PC Dry Bulk Terminal,
- purchase of two 12-ton loaders for the PC Dry Bulk Terminal.

Plans for the Year 2006

The Company plans to invest SIT 6.5 billion in 2006. The most important investments include:
- SIT 2.295 billion for the construction of facilities (warehouses),
- SIT 1.371 billion for handling and transport machinery,
- SIT 937 million for the development of port infrastructure,
- SIT 288 million for substitute construction due to the northern bypass road.



The faces of the world are the faces of our port.

On the other side of the sea is the southern Mediterranean, further on Africa, Asia, America. And in the very near vicinity are Austria, Italy, the countries of former Yugoslavia, Hungary, Slovakia, the Czech Republic and Germany.

Marketing and Customers

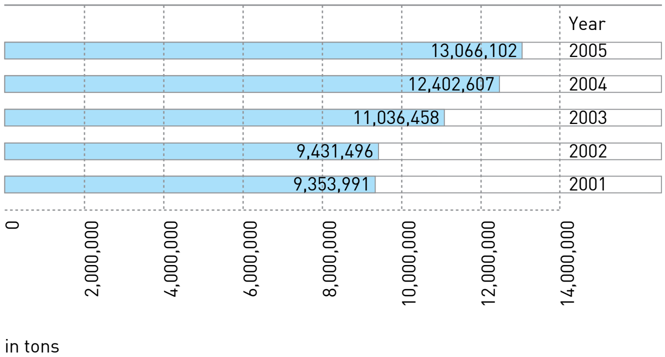
A Changed Market Strategy

In past years the Company decided to make a strategic shift in its activities, comprising the expansion of merely port activities to logistic services. Our activities are oriented towards intensive partnership with customers and developing services according to their needs, improving the structure of handled cargo to make optimal use of port capacities and harbour a concern for the environment and cost-efficient management of business. Markets are managed through promotional activities and premeditated external communication. To improve the competitiveness of the entire transport route, we are cooperating closely with other logistic providers.

Record Maritime Throughput

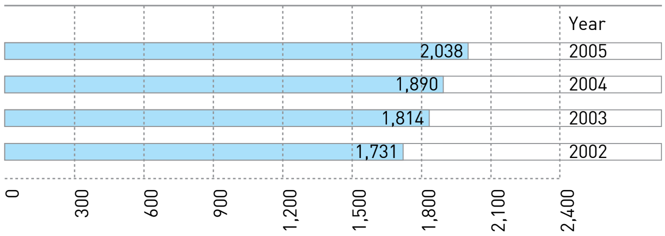
Maritime throughput continues to grow and register record cargo volumes. The 2004 volumes were exceeded by 5 percent, and the plan by 0.5 percent. The Company concluded the year 2005 with a new record maritime throughput of 13 million tons, a reflection of our successful operation in all commodity trade groups. The highest contributions to the record volume of handled cargo were made by containers, dry bulk cargoes, general cargoes and the strengthened position in the area of cars.

Maritime throughout in the period from 2001 to 2005

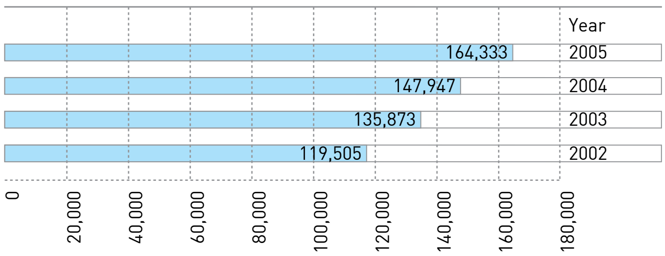


The year 2005 was also characterized by an increase in the number of transport means (ships, wagons, trucks) by which goods enter or leave the port.

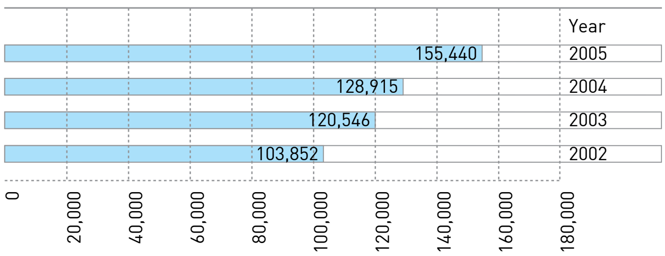
Number of ships



Number of wagons



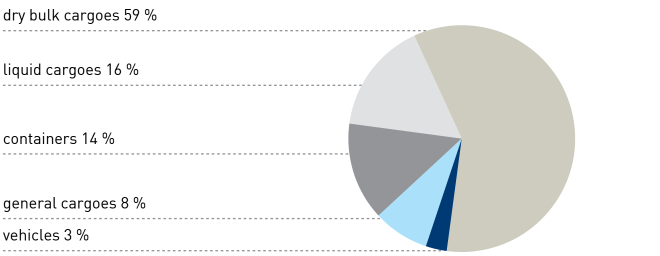
Number of trucks



Container Handling is on the Rise

Taking first place by cargo volume are dry bulk cargoes, followed by liquid cargoes. Container traffic is steadily increasing, and car handling also has a favourable position.

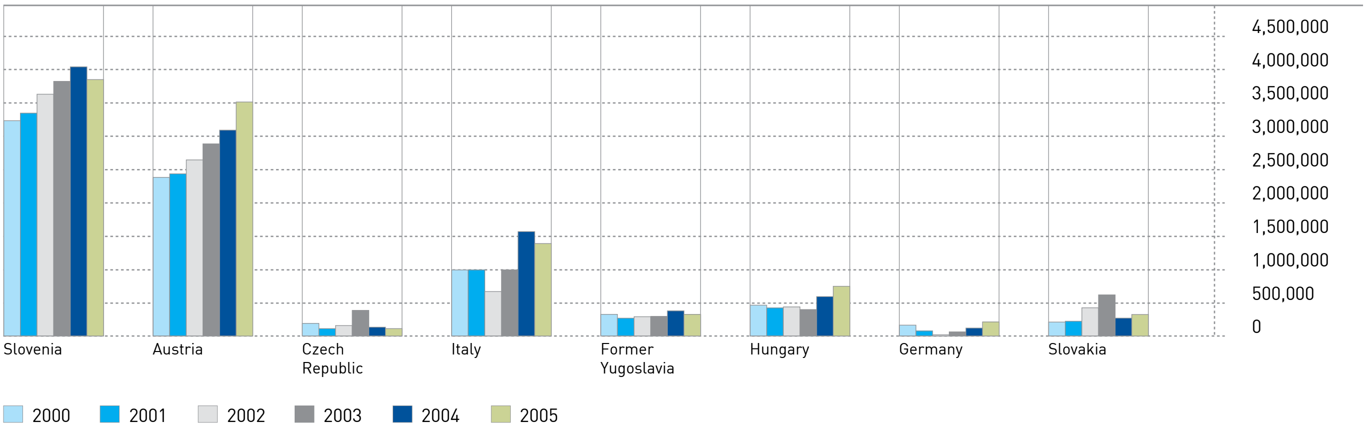
Structure of cargo types in 2005



The Port of Koper is Important for Hungary

Approximately one third of the goods traveling through the Port of Koper are intended for the Slovenian market. We are becoming an increasingly more important port for the Austrian market and the most important port for the Hungarian market. We are also preserving our position in other inland regions representing a business potential for our Company.

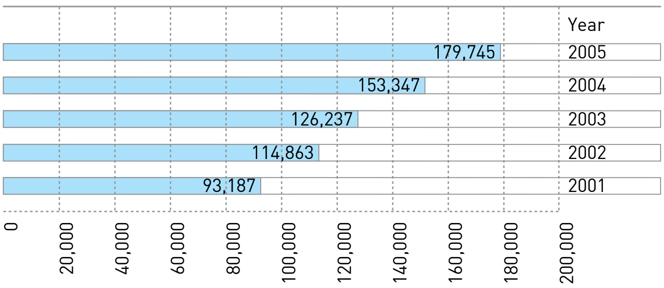
Throughput according to markets (in tons)



Record Volume of Handled Containers

The enormous growth of handled containers indicates that the steadily increasing trend of containerization of goods is present in Slovenia as well. Container handling exceeded the planned quantities by 12 percent, and the 2004 results by 17 percent. Our port handled 179,745 TEU (container units) in the past year, which is the highest number to date.
The largest share of handled containers, that is 72,854 TEU or 40.5 percent, was intended for Slovene buyers of port services, followed by Hungarian buyers with 50,386 TEU, customers from the markets of former Yugoslavia with 18,609 TEU, and Austrian customers with 14,510 TEU.
The high growth was predominantly influenced by effective sea and inland connections with the port. Owing to the arrival of a new shipping company, COSCO, the number of regular shipping companies offering stops in the Port of Koper has increased to 35. Also significant are the container block train connections between Koper and the BILK Terminal in Budapest and the Cargo Center in Graz. Among our key achievements is the acquisition of major integral service arrangements with companies such as Philips, Flextronics, and Bosch.

Containers



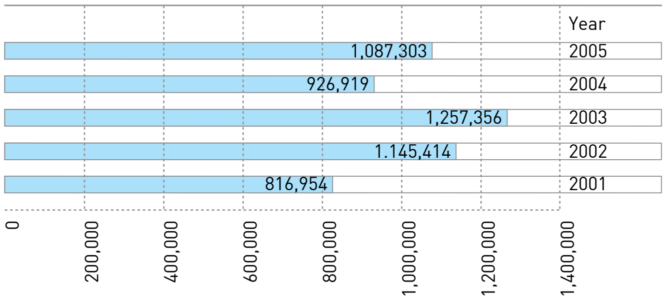
in TEU

Record Wolume of General Cargoes

General cargoes include goods that are handled at four specialized terminals: the Fruit Terminal, the Timber Terminal, the Livestock Terminal, and the Terminal for other general cargoes such as steel products, paper, cellulose, aluminium, sugar, coffee, appliances, home entertainment electronics, etc..

In comparison with 2004, the volume of general cargoes rose steadily at all terminals, except for the Livestock Terminal.
The most noticeable progress was made in perishable goods (citrus fruits, bananas, potatoes), whose volume in 2005 rose to 57,220 tons, which is 67 percent more than in the previous year and 4 percent above the plan.
Record volumes were also recorded in timber cargoes, which reached a total of 473,365 tons and exceeded the previous year's figure by 38 percent and the plan by 35 percent. The higher cargo volume is due to the appreciation of the dollar after an extended period and the resulting high timber sales.
Sugar cargo volumes also increased and business with iron products took an upward turn.

General cargoes

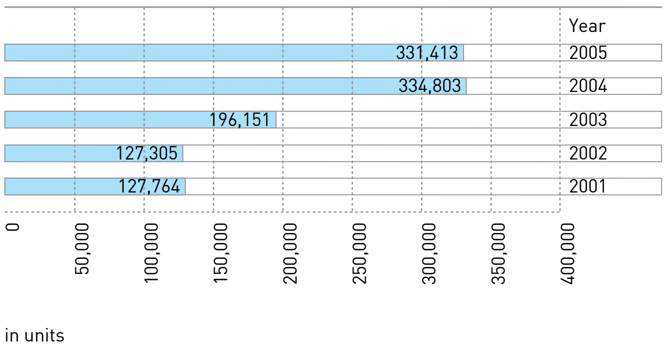


in tons

Koper is the Main Mediterranean Port for Vehicle Cargoes

Last year, the Port of Koper finally confirmed its position as the main Mediterranean port for Central and Eastern Europe for the distribution of all key types of vehicles to inland and short-distance overseas destinations.
The year 2005 confirms that the Company has strengthened its position in car cargoes, having repeated its 2004 record volume of handled car cargoes with over 330,000 handled vehicles. In the past year, the Car Terminal preserved the existing level of business and acquired new ones. The additional expansion of the terminal has contributed to the improved quality of warehouse areas.

Vehicles

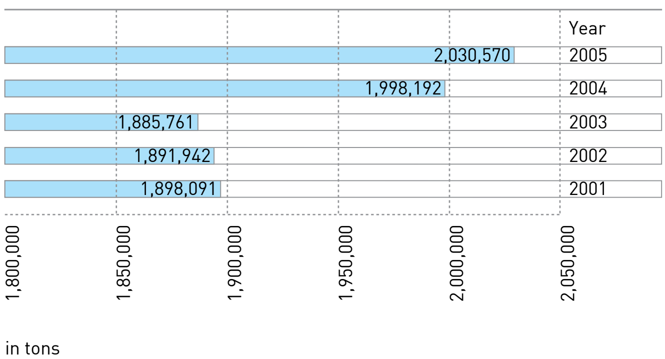


Constant Volume of Liquid Cargoes

The Company cooperates with the Instalacija, d.o.o. company in the handling of oil cargoes. The oil cargo volume has remained relatively constant over the years, and amounted to 1.84 million tons in the previous year. The volume of other liquid cargoes increased by 26 percent in comparison with the previous year and attained 187,427 tons.

The modernization and enlargement of the terminal's capacities was completed in the past year, particularly on account of fuel oil. This has opened new opportunities for more active marketing and the acquisition of new businesses. The Company also acquired the status of an excise warehouse for fuel oil, which is a significant advantage for customers.

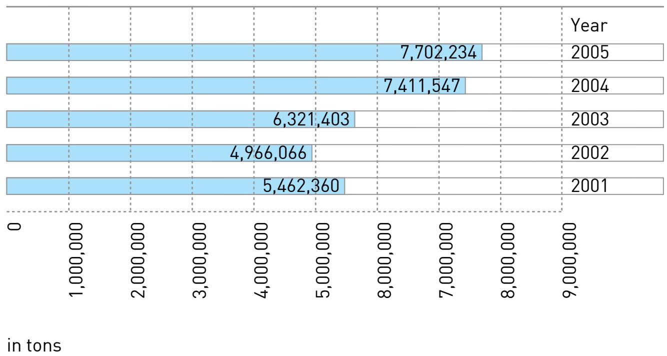
Liquid cargoes



Growth of Handled Dry Bulk Cargoes

Various groups of goods or cargoes in bulk are handled at four terminals: the European Energy Terminal, the Grain silo, the Alumina Terminal and the Terminal for other dry bulk cargoes. In 2005 the volume of handled dry bulk cargoes increased to 7.702 million tons, which represents a 4-percent increase over the previous year. Significant increases were recorded in handled soya, scrap iron, salt, Hungarian cereals, and coal cargoes. Increased cargo handling also calls for increased capacities, a task which awaits us in future. Owing to the lack of warehouse space, the European Energy Terminal had to refuse a number of ships carrying ore and coal.

Dry bulk cargoes



Logistics

The Company continued to provide logistic services and in this way complement its basic port activities. These primarily include certain forwarding services, customs mediation services, the organization of transport, and administrative support services for goods being handled in the port.

Business Excellence

Luka Koper, d.d. operates according to a management system in which we are implementing operating practices based on the model of business excellence. We have established an integral management system which also considers the particularities of our subsidiary companies. The European Award for Business Excellence granted to our Company last year as the first Slovene company in the service sector to receive this award, and the Business Excellence Award of the Republic of Slovenia received in 2002 are an acknowledgement that we are working successfully and have chosen the right path.

First in Slovenia to Receive the European Award for Business Excellence

Our goal upon introducing the model of business excellence was to harmonize our business operations with the best practices of European companies and use them as a model for comparison. Last year we made a huge step on the path to the European Award for Business Excellence. We became a member of the European Foundation for Business Excellence.
The Company participated in the Recognized for Excellence assessment procedure for the European Award of Business Excellence. We were assessed by European assessors according to the EFQM model and, on the basis of their assessment, were granted this award. Luka Koper, d.d. is the first Slovene company in the service sector to receive this award.

Self-assessment according to the EFQM Model

In 2005 the Company conducted, for the first time, a self-assessment according to the EFQM model for large companies. Its purpose was to determine the actual state or position of Luka Koper, d.d. through the prism of the EFQM model and, more importantly, identify the areas that need improvement.

An Integrated Management System

The Luka Koper Group has established an integral management system through the integration of various systems connecting individual parts of business processes into a uniform management system. Of great assistance to us in this area are the international quality standards and principles of business excellence. We are attaining the highest possible effects with the most rational use of available resources by the integration of quality systems, environmental management, ensuring safety at work, the conformity of foods, the protection of information, the model of business excellence and the certificate for the separate handling and warehousing of non-genetically modified soya.

Through its good business practice, the management system fully supports operational work. Some terminals have introduced additional special standards due to the specific requirements of customers. The Dry Bulk Terminal has established a system ensuring the separate handling and warehousing of non-genetically modified soya. We have thus eliminated the risk of goods being contaminated with genetically modified soya. This is confirmed by the Non-GMO Certification for compliance with the BRC Standard for the Supply of Identity-preserved Non-genetically Modified Food Ingredients and Products granted to the Company two years ago.

Plans for the Year 2006

- We shall apply for the European Award for Business Excellence (EFQM). Our goal is to attain 500 points.
- Self-assessments will be conducted in profit centers.
- We shall continue to promote good operating practice inside and outside the Company.
- We shall improve our approach to controlling processes, and implement criteria for measuring the efficiency of key processes.

Oriented towards Customers

The promotional activities of Luka Koper, d.d. are the fruit of productive cooperation between different professional services and terminals. In 2005 we strove to maximally increase the Company's recognizability through promotional activities and our openness towards the professional and broader publics.

Presentations at Specialized Fairs

In addition to individual visits to existing and potential business partners, one of our most important activities is participation at specialized fairs. Increasingly more popular is the independent presentation of individual terminals, as port activities are becoming more specialized according to individual segments.
In February the Fruit Terminal participated for the first time at the Fruit logistica fair in Berlin, which is the main European event for fruit and vegetable trading. In May our Company traditionally participated in the largest European specialized biennial fair "Transport and Logistics" held in the Bavarian capital. In October we attended the international fair "Transport and Logistics" in Brno. Our modernized European Energy Terminal was presented at the European version of the Coaltrans fair in Paris.

A reception for business partners was organized by the Company in Budapest, where our new management team introduced themselves to our traditional Hungarian partners.

Conference Organization

In October, Luka Koper, d.d. organized for the second consecutive year an international conference entitled "Port Management & Logistics". The conference was attended by approximately 180 participants from 15 countries. The purpose of the meeting was to strengthen the recognizability of our Company and the entire Slovene transport route, as well as to exchange knowledge and experience among participants.

Renewed Website

In 2005 our website was renewed with the primarily goal of improving the transparency of presented information. The most important novelty is the renewed sailing list – list of ships alongside and the list of arriving vessels, a presentation of obligatory publications from the stock exchange website SEOnet, and LKPG share value fluctuations. Panorama photos are presented of the terminals where our basic port activities are performed.

Advertising

The Company was also promoted through advertisements. Our new corporate advertisement was again traditionally published in Austrian specialized magazines, and more attention was devoted to the Hungarian media. Most of our advertising efforts were directed towards promoting the Fruit and Car Terminals, which represent a huge market potential. In 2006 advertisements are also planned in specialized publications in the Far East.

Media and Public Relations

The Slovene and foreign public are informed on events in our Company with the help of various communication tools. We prepare and send out press releases, answer the questions of journalists, organize press conferences, publish news flashes on our website, as well as the electronic newspaper "Notice" and various reports. In accordance with the law, Slovene investors are regularly provided with price-sensitive information on the stock exchange website, SEOnet.

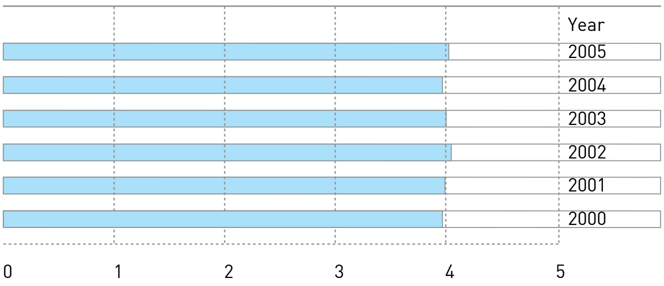
With the aim of convincing the foreign public that our share represents a good investment, we participated at Slovene Capital Market Day in London together with six leading Slovene companies.

Last year our Company was presented to numerous potential partners and economic delegations. We were visited by students from different secondary schools and faculties, as well as the representatives of various organizations. The port was also visited by domestic and foreign political and governmental groups.

Customer Satisfaction

We are endeavouring to maintain and increase the quality of our services, which is one of the key tools for the satisfaction and preservation of customers. In the past year we regularly followed the dynamics of relations with our key customers, and assessed them with an average market of very good.

Customer satisfaction is always assessed as "very good"



In the past year, the Company paid approximately SIT 17 million for handling damages based on cargo volume. This amounts to SIT 1.48 of paid indemnity per ton of handled cargo, which is less than the allowable limit set at SIT 1.9 per ton.

Assessment of Suppliers

The assessment of suppliers, performed by the Company each year, is a basis for the selection of a supplier and its inclusion in the list of strategic suppliers. Luka Koper, d.d. cooperates and does business only with strategic suppliers. This is a guarantee for the reliability of delivered goods or provided services, quality, and the observation of agreed deadlines. Special attention is devoted to suppliers being of particular importance for port and related activities.
At the end of the financial year, 25 suppliers of technical products and services were assessed. In general, their ratings were as high as in the previous year. This means that the quality of suppliers continues to be on a high level. Equally favourable are other indicators, such as prices, delivery dates and the number of complaints, which are decreasing from year to year.

We are attaining the set goals in innovative activities

In 2005, employees submitted 297 improvement proposals. This means that we have realized our goal set in the previous year, that is at least four improvements per ten employees.
In 2006 we plan to surpass this goal.

Information Support

For more than two years Luka Koper, d.d. has provided information support services in cooperation with the company Actual I.T., d.o.o. .
Information support services are provided in three key areas:
- Regular support in maintaining the level of services within the scope of agreed services for 14 SLAs (Service Level Agreemment).
- Development planning and conduction of research projects and major development activities.
- Ensuring the safe use of information technology means.

Plans for 2006

This year we intend to introduce a number of novelties in the area of information support. These include the implementation of the Marketing and Operations project (TinO), the introduction of new SAP modules, trial initiation of a goods tracing system using the bar code for general goods and fruit, investments in the introduction of electronic mailbox access capabilities via the web interface or mobile phone, and the modernization of certain systems.

Human Resources Management

The human resources and organization activities of Luka Koper, d.d. were focused on realizing the following activities and goals:
- ensuring the rational and flexible organization of work, improving microorganization and the management of working hours, implementing organizational changes related to the amendment of the Articles of Association of the Company and the appointment of a new four-member Management Board;
- individualization of training adapted to the needs of units and individuals, and the introduction of a knowledge transfer system among employees;
- participation in European and state projects in the areas of learning, education and transfer of knowledge in the company;
- recruitment and rotation of employees in order to satisfy work requirements on the corporate level;
- following and adapting to novelties in legislation.

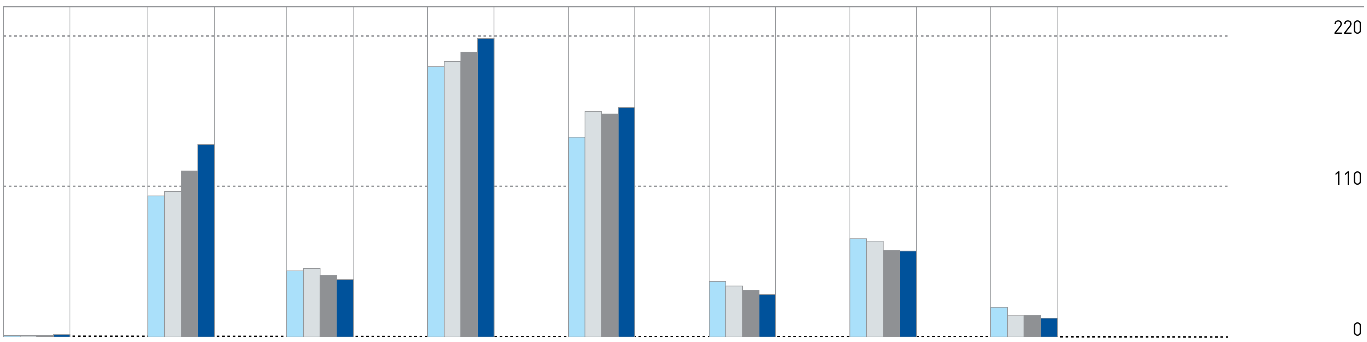
Staff Recruitment

On the last day of 2005, Luka Koper, d.d. had 679 employees, which is four percent more than in 2004. The growth of staff count persisted in 2005, continuing the trend of 2003 and 2004. The main reasons for this increase were to ensure the implementation of regulations governing the management of working hours, that is daily and weekly rest of employees and the utilization of hours worked in temporarily rescheduled working hours on the level of operational staff and substitutions for employees going into retirement, which will be carried out in 2006, due to adequate initiation or mentorships of new employees on the level of professional and medium management staff.
For the purpose of ensuring an optimal staff structure for the effective and legally harmonized development of the work process, 53 new employees were hired. The average number of employees was 669.4, compared to 664.8 in the previous year. The employment of 24 employees was terminated for objective reasons. The most frequent reasons for departures were retirement and mutually agreed termination of employment.

Improvement of Education Structure

The education structure of employees in Luka Koper, d.d. improved in comparison with the previous year. The number of employees with a VI, VII and VIII level education increased by one percent over the previous year, or by one quarter with respect to the average number of employees in 2005, or by 24 percent over 2004. The number of unqualified and semi-qualified workers fell 2 percent in comparison with the previous year, or by 16 percent with respect to the average number of employees in 2005, and by 18 percent in 2004.

Education structure of employees of Luka Koper, d.d. in the period from 2002 to 2005

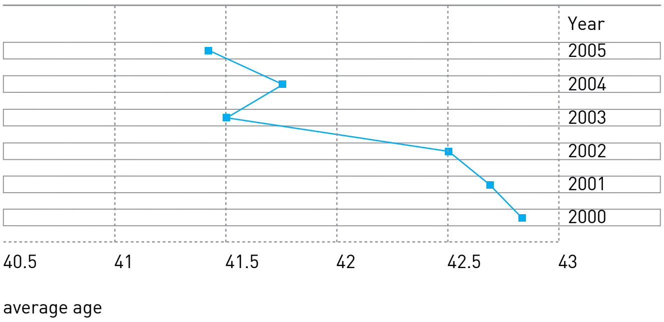


Level VIII	Level VII	Level VI	Level V	Level IV	Level III	Level II	Level I	
1	103	49	197	147	40	72	21	31 Dec 2002
1	107	50	201	165	37	70	16	31 Dec 2003
1	121	45	209	161	34	63	16	31 Dec 2004
2	141	41	219	168	31	63	14	31 Dec 2005

Increasingly Younger Employees

The average age of employees in Luka Koper, d.d. was 41.4 years, while the average length of service was 19.8 years. In comparison with the previous year, both decreased, which is in line with the overall trend of declining average age and length of service.

Average age of employees of Luka Koper, d.d. in the period from 2000 to 2005



Employment of Disabled Persons

On the last day of the year, Luka Koper, d.d. employed 13 disabled persons, which represents 1.9 percent of all employees.

At the end of the past year, the Government of the Republic of Slovenia issued a Decree determining the Quotas of Employed Disabled Persons. For the activities of Luka Koper, d.d., a five-percent quota of employed disabled persons was determined, which means 34 employees.

The regulations allow for three methods of fulfilling the requirement for a quota of employed disabled persons. The Company decided to fulfil the quota by entering into an agreement on business cooperation with the company Luka Koper INPO, d.o.o.. The agreement was concluded in the first half of January 2006. The same method was selected by a subsidiary company, Adria-Tow, d.o.o.. Luka Koper Pristan is not obliged to fulfil the quota because it employs less than 20 workers.

We expect to fulfil the assigned quota of disabled persons in Luka Koper, d.d., by the end of the year.

Education and Career Development

The planning and execution of employee development are conducted in line with the annual and long-term goals and plans of the Company. Employee development means ensuring adequate types and qualities of employees through education and training programmes, acquisition of work experience, skills and the motivation of employees.

New Initiatives and Projects for Directing the Development of Employees

Appropriate and quality employees are ensured through guided training programmes. For this reason the Regional Committee for Profession Standards filed an initiative for the preparation of a national professional qualification for operators of various groups of cranes. The long-term goal of the initiative is to ensure adequate employee profiles on the labour market through the national education system, as there are currently no such employee profiles on the existing labour market.

Due to the goal-oriented development of operational staff, last year the Company began, in cooperation with the Regional Development Center Koper, to participate in a European project entitled Eurostiba, which operates within the scope of the Leonardo da Vinci public competition. The goal of the project is to develop a model of professional training for port employees and their international comparison. Also participating in the project are port adminstrators from Valencia in Spain, Livorno in Italy, and Marseille in France.

Individual Development Planning

One of the tools of target management and the individual approach to planning the work and development of employees are annual interviews. For the past three years, these interviews are conducted on all levels of the staff structure.

For the fourth year, the planning of individual development has been conducted within the scope of the process of identifying and developing staff members who, in the long or short term, will take up managerial positions in Luka Koper, d.d.. This process was additionally improved last year with a questionnaire for the identification of potentials for operational employees and the junior-level management. Last year, seven potential employees were proposed and identified during the course of the procedure from among these very employees.

The implementation of individual development plans is conducted through the education and training of employees, rotations of employees to the same or similar jobs in other organizational units, and the horizontal and vertical advancement of employees.

Luka Koper is a Learning Organization

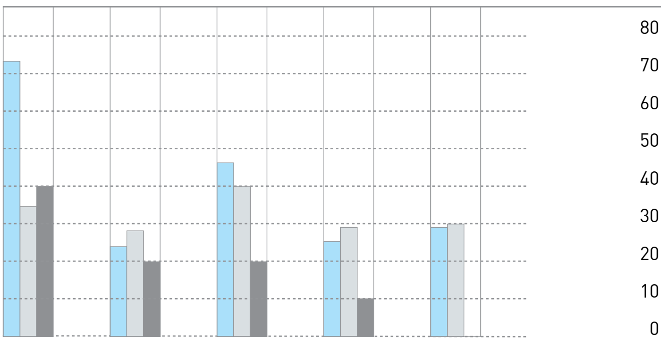
Last year, Luka Koper, d.d. received an acknowledgement for its achievements in developing the concept of a learning organization, awarded to our Company for the second time by the Learning Organization Institute, and for the presentation of our business practices to other Slovene companies organized in June.

For several years now, all employees of Luka Koper, d.d. have undergone at least one form of education. The transfer of knowledge is also conducted within the company in the form of consistently organized workshops featuring presentations of business results and plans by the management to employees in all organizational units. The employees of associated companies and the suppliers of port services are occasionally included in our training courses.

Altogether 20,300 hours were used for the functional training of employees, who received on average 30 hours of training each. This is more or less the same level as in 2004, when employees received on average 29 hours of training.

The Company devoted more attention to the intensified training of medium and junior-level management staff. Our goal was to create a uniform management culture. An increased scope of training was also provided to operational employees, for whom a tutoring system was introduced.

Average number of hours of functional training according to employee levels in Luka Koper, d.d.



senior management	line management	professional	operational	average	
73	23	46	25	29	2004
34	28	40	29	30	2005
40	20	20	10		plan 2005

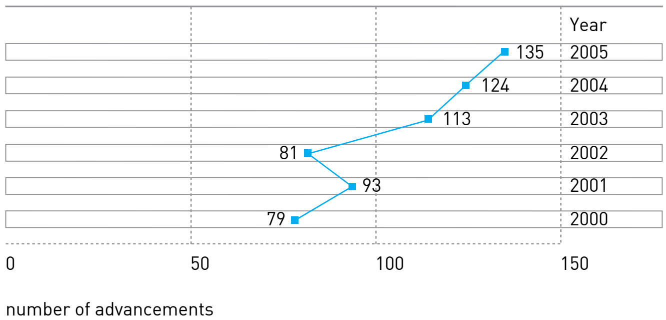
Another form of long-term preparation and training of employees at Luka Koper, d.d. is the renewed granting of scholarships in deficient areas. In 2005 the Company entered into one scholarship agreement for the graduate study of electrical engineering.

In 2005 Luka Koper, d.d. allocated a total of SIT 51 million for staff training, which is within the framework of annually planned funds for educational purposes. Of this amount, SIT 12 million was utilized for part-time studies, which represents 24 percent of the allocated financial resources.

Work Performance is Remunerated

In addition to monitoring and remunerating individual and collective achievements, as well as the acquisition and utilization of skills on the job, we also stimulate employees materially – by promotions. In the past year, 135 employees fulfilled the requirements for promotion, and advanced to a higher level. The growth of employee advancements in the past three years may be attributed to the increased awareness of our unit managers that the development of employees is an important component of management and a precondition for the successful business operation of a unit.

Number of on-the-job advancements in Luka Koper, d.d.



Last year, on the initiative of the Employee Council, the Management Board adopted a changed procedure for on-the-job advancement of employees. This procedure enables the advancement of employees who do not meet the requirement for on-the-job advancement – required level of education and age under 50 years –, but who in their work surpass the formal job requirements. The Employee Council adopted this approach as a permanent change in the system.

More Funds Allocated for Solving Housing and Social Issues

Last year, a housing loan in the requested amount of SIT two million was granted to one employee. Social assistance was provided to 16 employees, of which 15 were on extended sick leave, and one employee of Luka Koper INPO, d.o.o. had serious financial difficulties. The Company allocated SIT 1.75 million for social assistance in the previous year, which is SIT one million more than in 2004.

Cooperation with Educational and Scientific Institutions

The Company cooperates closely with educational and research institutions, and also endeavours to contribute to the development of knowledge in the entire community. In addition to cofinancing local research projects, we also participate in government and international projects. Among these we acquired, in cooperation with the Faculty of Management of the University of Primorska, an applicative project entitled Recognition of informal education and experiential learning on the level of higher education, and applied for the first time for a public competition for a European Phare project: Phare national programme economic and social cohesion – Lifelong Learning Project.
The Company also cooperates with secondary schools and institutions of higher education, where our employees are engaged as senior lecturers and assistant professors, mentors and co-mentors at the faculties of the University of Primorska and the University of Ljubljana. Secondary and other students undergo their compulsory practical training in our Company. In the past year, 11 secondary students and 14 students completed their practical training in Luka Koper, d.d.. Within the framework of the European Leonardo da Vinci programme, one student underwent 13 weeks of professional training in our Company.

Reducing Employee Dissatisfaction

Last year the Company changed its system of assessing the satisfaction of employees. A regular annual survey was not performed, as we assessed that concrete changes aimed at improving satisfaction could only be implemented in the long term. An opinion survey will therefore be conducted in 2006.
Irrespective of the survey, we introduced modifications and improvements of certain systems representing a source of lower satisfaction. These include:

- organizational changes, which have allowed for the more transparent division of responsibilities, competences and clear paths of communication,
- modification of the system of advancement on the job,
- extensive and in-depth training of medium and line management staff in the fields of management and internal communication,
- the individualisation of trainings,
- design and implementation of a tutoring system, that is the internal transfer of knowledge,
- recruitment of new employees,
- implementation of rules ensuring more uniform loads particularly on operational and line management staff in the rescheduling of working hours.

Concern for the Safety of our Employees

By ensuring health and safety at work, in the workplace and among employees, we are strengthening our safety culture. Various education and training sessions on the topic of safety at work were organized for our employees. Training courses were organized for employees handling hazardous substances, as well as on the topic of controlling stress on the job.
Courses and workshops were also prepared for the employees of our subcontractors.

In 2005, 34 injuries at work were reported at Luka Koper, and 27 with labour suppliers.

To ensure a maximum level of safety at work, all working equipment is periodically inspected and tested. Specialized organizations periodically conduct tests on chemical, biological and physical hazards in the workplace. The negative effects of noise and vibrations on employees have been reduced by the acquisition of new, more energy-efficient and environment-friendly handling equipment.

Shareholder Satisfaction

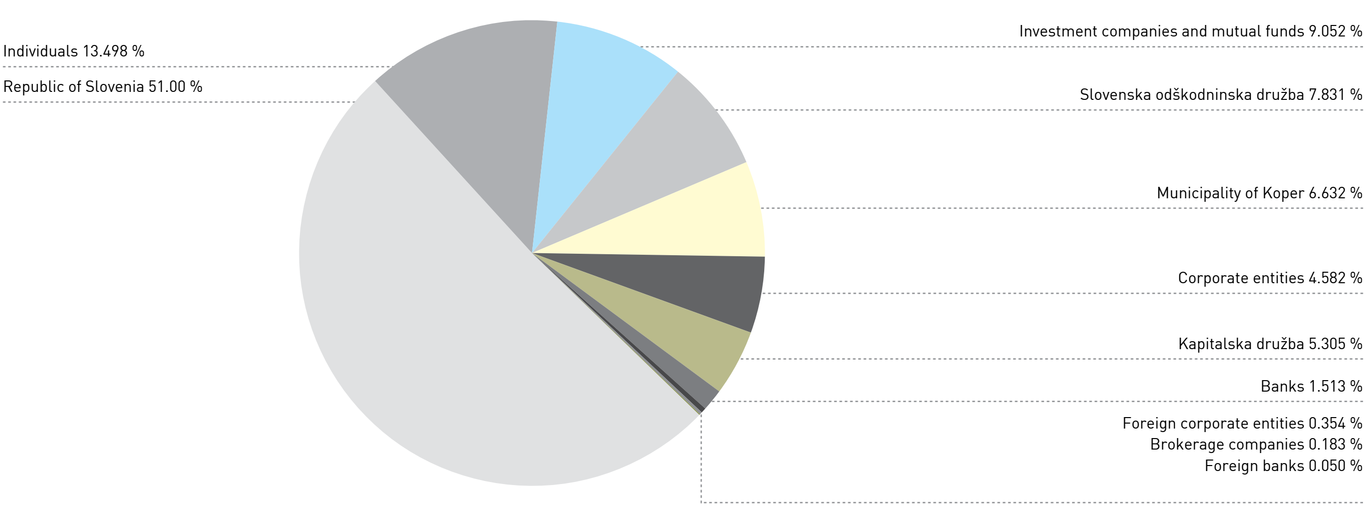
The share capital of Luka Koper, d.d. is divided into 14,000,000 shares with a nominal value of SIT 1,000 each. 7,140,000 are ordinary registered shares traded on the Ljubljana Stock Exchange, while the remaining 6,860,000 shares are participating preference shares fully owned by the Republic of Slovenia.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

Ownership Structure

The ownership structure of Luka Koper, d.d. did not change substantially in 2005. The Republic of Slovenia has remained the largest owner with a 51-percent share, while Slovenska odškodninska družba holds 7.83 percent of shares. The Municipality of Koper and Kapitalska družba are also among the major individual holders. The shares of foreign companies and foreign banks are increasing. At year-end the Company had 9,480 shareholders, that is 3.39 percent less than at the end of 2004.

On 31 December 2005 the ten largest shareholders held 76.56 percent of all shares of Luka Koper, d.d.. No significant changes are noticeable among them, except for Banka Koper d.d., which, in comparison with 2004, became one of the ten largest shareholders of the Company in 2005.

Ownership structure of Luka Koper, d.d. on 31 December 2005



Ten largest shareholders as at 31 December 2005

	Number of shares	Stake (in %)
Republic of Slovenia	7,140,000	51.0
Slovenska odškodninska družba	1,096,319	7.8
Municipality of Koper	928,480	6.6
Kapitalska družba, d.d.	699,885	5.0
VS Triglav Steber I	194,482	1.4
KD ID, delniška ID, d.d.	170,858	1.2
KD Galileo, mutual fund	151,905	1.1
Banka Koper d.d.	121,278	0.9
Adriatic Koper, Protection Fund	109,768	0.8
Zavarovalnica Triglav, d.d.	104,756	0.7
10 largest shareholders - total	10,717,731	76.5

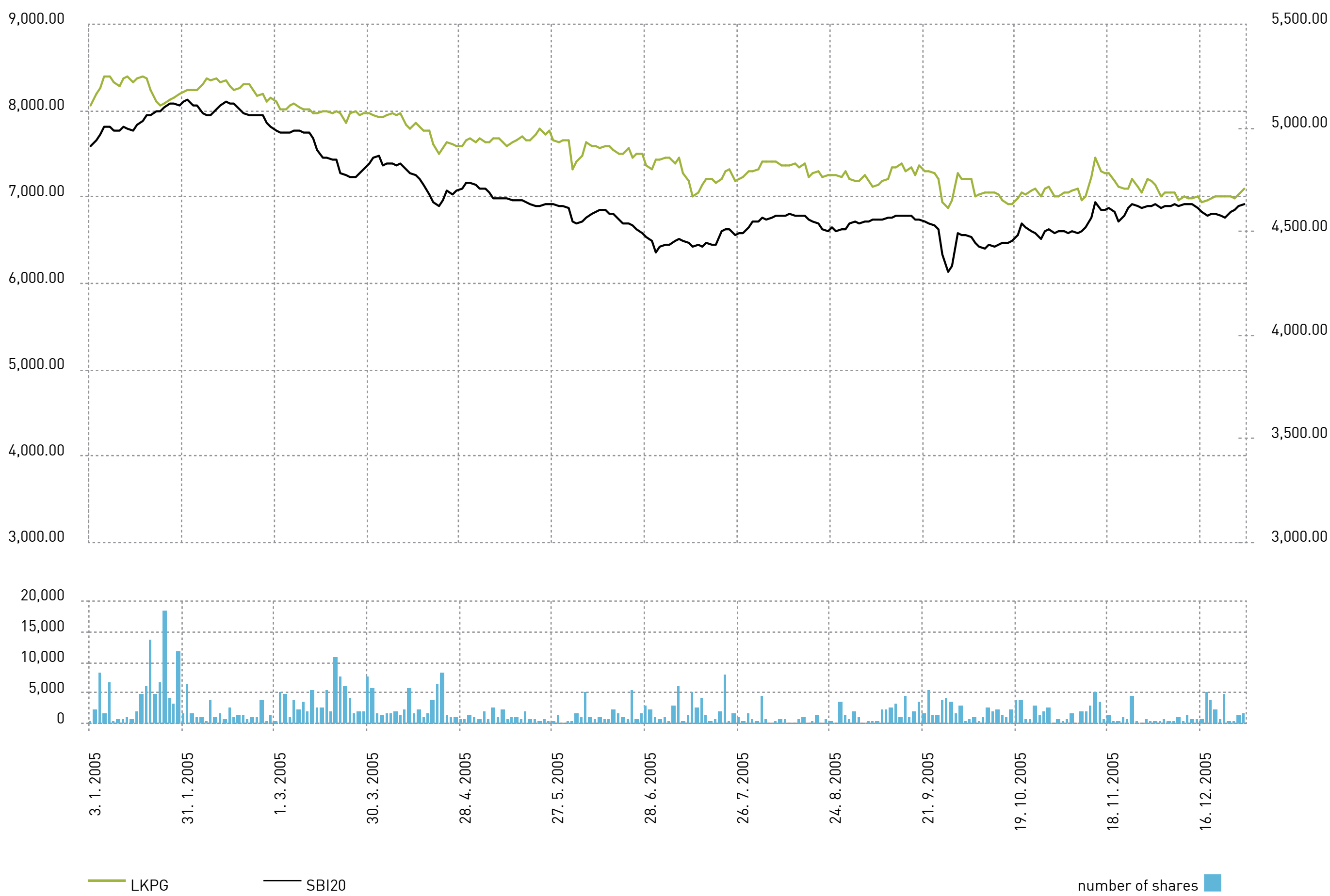
Trading in Shares

In 2005 a total of 3,776 transactions were carried out with the LKPG shares. In these transactions, the owners of 512,589 shares, that is 7.18 percent of all ordinary shares listed, changed. The uniform price of the share of Luka Koper, d.d. on the first day of trading in 2005 was SIT 8,055.65 and on the last day of trading SIT 7,107.66. The share's average weighted price was SIT 7,664.76, which is 3.78 percent below the 2004 figure, which amounted to SIT 7,966.15.

In 2005 the Slovene Stock Exchange Index fell 5.68 percent.

The peak price achieved in transactions with our share was SIT 8,450.00, while the lowest price was SIT 6,720.00. The trading volume on the Ljubljana Stock Exchange attained a value of SIT 5.2 billion. The changes in share ownership were most highly reflected in investment companies, mutual funds, and in corporate entities.

Price movements and trading volumes of the LKPG share compared to the Slovene Stock Exchange Index in 2005



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

	2000	2001	2002	2003	2004	2005
Number of shares	14,000,000	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	6,860,000
Ordinary shares	7,140,000	7,140,000	7,140,000	7,140,000	7,140,000	7,140,000
Price on the last trading day of the current year	3,001.70	3,245.90	4,594.11	7,217.57	8,047.33	7,107.66
Average book value per share	3,088.00	3,477.00	3,867.96	3,899.45	4,045.62	4,250.62
Net earnings per share (EPS)	207.2	259.9	321	277.53	298.69	299.21
Price-earnings ratio (P/E)	14.4	11.7	13.3	19.06	26.67	25.62
Price to book value ratio	0.96	0.86	1.1	1.36	1.97	1.80
Weighted average market price	2,979.00	3,005.80	4,267.84	5,290.79	7,966.15	7,664.76
Dividend yield (in %)	4.4	4.9	4.4	4.2	3.1	3.20
Total trading volumes with the share (in thousands of SIT)	2,869,612	3,240,877	5,781,739	4,465,161	7,908,248	5,251,453
Dividend per share	132	150	190	225	245	260

Note: The weighted average price of the LKPG share and the average book value of the share are calculated from the monthly averages and used for the calculation of the price-earnings ratio per share and the price to book value ratio. EPS is calculated as the ratio between the net profit for the period and the number of issued shares. The total trading volumes with the share, excluding lot dealings, attained a value of SIT 3,801,564,909.00.

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 ensuring a growing return per share.

The gross dividend per ordinary share for 2004 was SIT 245. The foreseen gross dividend per ordinary share for 2005 is SIT 260, and SIT 65.86 for preference shares.

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

Luka Koper, d.d. held no treasury shares in 2005.

Dividend per ordinary and preference shares

Year	Ordinary shares	Preference shares
2001	190.00	49.83
2002	225.00	56.99
2003	245.00	65.86
2004	245.00	65.86
2005	260.00	65.86

No, olives are not among the goods traveling through our port. These are our own olives,

produced in the port. A unique natural environment is what Slovenia is known for around the world. It is our value, which we do not wish to threaten by our activities. That is why we have implemented the ISO 14001 environmental standards in our operations, hence the measurements of impacts on the environment, as well as numerous partnerships in social responsibility projects. Responsibility is natural.

Report on Sustainable Development

Since the very beginning of its operation, Luka Koper, d.d. is confronting development challenges. The commercial Port of Koper has developed into an important international goods distribution center and logistic system. In carrying out our business projects, we equally assess the success of economic development also from the viewpoint of environmental responsibility and social development of the environment in which we live and work.

We are aware that the growth of the port has not only brought new shores, warehouses and modern equipment, but has also stimulated the development of the town and the state of Slovenia as a whole. The business achievements of Luka Koper, d.d. directly influence the overall development of the social and material environment in which it operates. Port activities enable the flourishing of many other activities and the construction of generally significant infrastructure.

It is for these reasons that Luka Koper supports social activities and the development of culture and sports. We also actively support health care and humanitarian activities, and contribute to investments in knowledge and research activities.

Active Partnership with the Local Environment

The debate on the construction of Pier III and the lack of direct contact with local communities have stimulated Luka Koper, d.d. and the Municipality of Koper to establish a local partnership with interest groups and local communities. The project has been named "Living with a Port", and its goal is to attain a higher level of dialogue and cooperation with the local community in preparing the development plans of Luka Koper, and to create a higher quality of living in the local environment.

The first phase of the project, implemented in May and June, was conducted in the form of interactive workshops and meetings with interest groups and the representatives of local communities.
The public was informed on the course of the project on a special website, www.zivetispristaniscem.si.
The project will be continued in future, after we have precisely defined the interests of all partners, adopted a partnership agreement, and regularly monitored the fulfillment of set goals.

Investing in Knowledge and Research Activities

At Luka Koper, d.d. we are well aware that the quality of business in our Company is closely linked to the development of the social environment and the knowledge it sustains. This is why we support, in various ways, the functioning of day care centers, elementary school, colleges and higher schools of learning, faculties and scientific institutions. The Company provides financial support to educational institutions for the purchase of teaching aids and requisites, and supports them in the implementation of their education programmers and projects. Last year we donated funds for well-maintained and safe children's playgrounds in day care centers in Koper. The Company also financed the most up-to-date information support in one of the classrooms of the Secondary School of Economics and Business.

Luka Koper, d.d. regularly provides financial support to the University of Primorska and various institutions under its wing, as well as other universities in the country. We also support individual research organizations, societies and specific project on the local and national levels through sponsorships and donations. The members of the Retiree Club of Luka Koper have contributed extensively to spreading knowledge about our activities and strengthening the reputation of our Company. Our retirees help to conduct guided tours of the port. In 2005 the port was visited by approximately 12,000 pupils, secondary and university students.

Supporting the Development of Culture and Sports

The Company financially supports various cultural events and activities in the coastal-Karts area. For several years, we have sponsored the international theatre festival entitled Primorska Summer Festival, and participated in the organization of the Folkfest music festival. Since its establishment we have financially supported the Koper Theatre, and since 1983 we have sponsored the Koper Brass Band. We also support many amateur cultural societies and events reviving old Strain customs and language. The Company sponsors art exhibitions, and also supported a complex artistic project involving the creation of a mosaic in St. Mark's Church in the Markovec district in Koper.

In the sports arena, we allocate substantial funds for the sports activities of our employees and for general sports activities on the local and national levels. The Company has been a sponsor of Slovene Olympic Committee for several years, and in 2005 financially supported numerous associations and teams on a national level.
On a local level, we primarily support water sports such as sailing, rowing, swimming and water polo. We are the main sponsor of the Luka Koper Volleyball Club, and also provide assistance to many other clubs and societies, as well as financial contributions to the organizers of various sports events.

Humanitarian Activities

Sponsorships and donations to humanitarian organizations, societies and civil initiatives in the areas of health care and social work are an integral part of our activities. In 2005 the Company supported countless societies offering care to persons with special needs or conduct humanitarian and similar activities. Assistance is also provided to individual patients and associations of patients with specific diseases. Donations are contributed for the purchase of medical devices.

For the second year, our holiday apartments have served as a temporary residence for the inhabitants of the Posočje region, whose homes were destroyed by an earthquake. We also provided assistance to the inhabitants of southeast Asia, who were hit by tsunamis. A school on Phuket Island was renewed and equipped with our support.
Fire safety is of extreme importance to Luka Koper, d.d., which supports this activity and firefighting societies through donations.

Plans for a Higher Quality of Living

The commercial Port of Koper represents an important infrastructural and economic activity to its close and broader surroundings. This is also reflected in the multiplicative effects of handling services, as each tolar charged in Luka Koper is multiplied 13 times in the Slovenian economy.

The port is also strongly linked to the operations of other companies, such as railway and road transport companies, shipping and forwarding companies, construction company, and other activities – banks, insurance companies and state institutions. On an annual level, all activities linked to the port general reach around SIT 2000 billion in profits, or more than SIT 100 billion of added value.

In future, the Company will continue to support the development of projects relevant for the local community. Two projects of great significance for the local environment will be initiated in 2006:
- Transfer of the main entrance to the port from the town center to the area between Ankaran and Bertoki, which will reduce the traffic loan on access roads to the town caused by cargo traffic. Our Company has also undertaken to contribute to the reconstruction of roads alongside the port that have been damaged by heavy trucks.
- The construction of the Koper bypass road, which will not only be intended for vehicles, but will be accompanied by walking and cycling paths. Our Company has for this purpose granted to the Municipality a toal of 30,000 square metres of area, including two moorings. The land previously used for port activities will be used by the town for the development of cultural and tourist activities, as well as for the construction of a passenger terminal, which will be supported by Luka Koper, d.d..

Environmental Report

The Port of Koper is the only port in the northern Adriatic that operates according to ISO 9001 and 14001 standards. We are committed to developing new methods and models for the effective protection of the environment and its management. For this reason we cooperate very closely with local communities in resolving environmental issues.

We are bound by the principles of sustainable development, which also includes the responsible protection of the environment. Competent inspection teams in the port regularly supervise the impacts of its operations on the environment. All measurements have shown that gas, water and dust emissions, as well as noise and dust imissions, are within the allowable limits.

In June, emergency measures were implemented at the first reservoir due to pollution of the sea bottom with fuel oil.
A Programme of activities for implementing measures aimed at eliminating the consequences of sea pollution due to oil spills into the cargo Port of Koper was prepared. The measures were financed and conducted by Luka Koper, d.d..

Cooperation with Numerous Institutions and Local Communities

We are committed to protecting the environment in accordance with the legal regulations of the Republic of Slovenia and the European Union. Each year, our system is upgraded and improved.

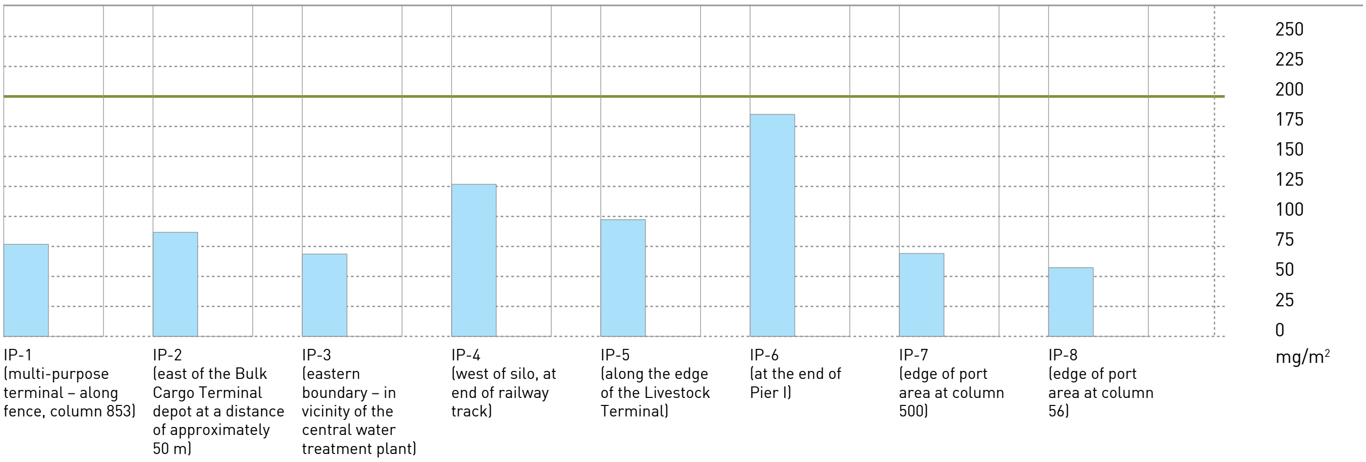
The Company conducts numerous research projects and actively participates in government and international projects aimed at reducing and preventing negative impacts on the environment, namely: Harmful intakes and management of ballast waters in the Slovene sea, Impacts of aerosols, Environmental protection programme for Slovenian Istria, and REMPEC (Regional Marine Polution Emergency Response Center for the Mediterranean Sea).

In the area of environmental management, we cooperate with several European and international ports in the international projects INTEREG III A and INTEREG III B. Special attention is devoted to cooperation with all neighbouring local communities and competent municipal and state bodies.

Monitoring Air Quality

Measurements of the limit values of dust imissions are not legally determined and are thus not reported to the state. However, the existing regulations specify the maximum recommended quantity of imissions. The maximum recommended quantity of anorganic particles (dust) is set at the value of 200 mg per square metre per year.
All measurements performed in the past year in Luka Koper, d.d. indicate that the above-mentioned values are not exceeded even at critical points.

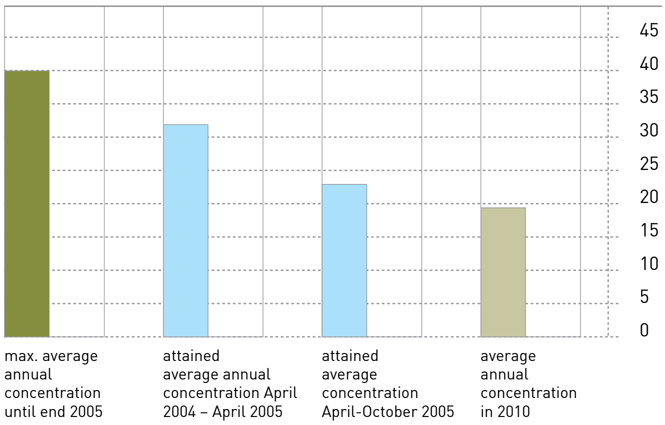
Values of measurements at specific locations, assessed as critical



immision of dust - average measurements of anorganic dust residue in 2005

In addition to monitoring emissions and imissions, we are also conducting a study on air quality monitoring in the area of Pier II. Since 2003, an authorized institute has been conducting uninterrupted measurements of imissions of inhalable dust particles in the direct vicinity of the Dry Bulk Cargo Terminal. On the basis of measurements performed, we have established that the average annual concentration of inhalable dust is below the legally prescribed maximum concentration, which under Slovene law and European Union guidelines amounts to 40 micrograms per cubic metre. Our goal is to reduce this value by one half by the year 2010. This is also required by the Kyoto Protocol, which is binding for all members of the European Union.
This goal will by all means be attained, as the measurements of dust particles in air indicate that their concentration in the period between April and October 2005 has decreased by 30 percent in comparison with April 2004 and April 2005. The average concentration recorded between April and October of last year was 23.1 microgramme per cubic metre.

Results of measurements in 2005



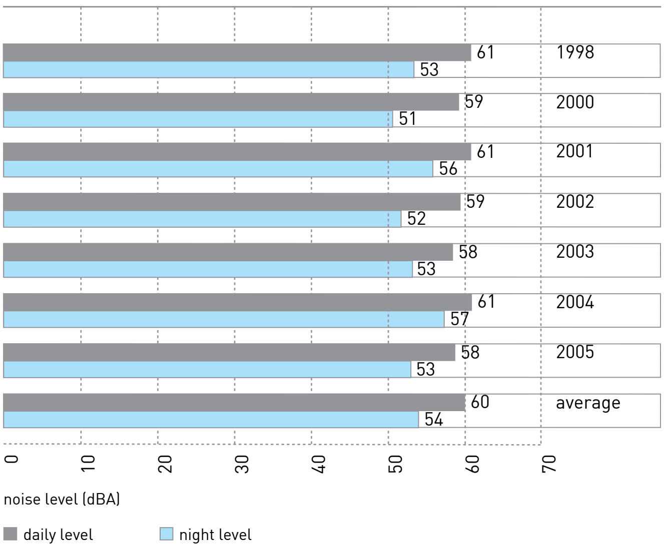
dust concentration μq/m3

In October, we initiated a project in the Port of Koper entitled "Control of air pollution with dust residues in the local communities of Ankaran and Hrvatini". The purpose of the project was the yearly analysis and determination of the influential area of dust residues emitted from the coal and iron ore depot in the area of the European Energy Terminal. Sampling is conducted at six points, one of which is positioned as to enable the comparison of dust quantities coming from Trieste and Koper.

Continuous Monitoring of Noise Impacts on the Environment

We have been regularly conducting measurements of noise emission in the natural and living environments since 1998. These measurements are performed at three locations: in the vicinity of the town center of Koper, and at border points in the direction of Ankaran and Bertoki. All measurements performed to date have shown that handling activities have not exceeded the allowable day and night noise levels.

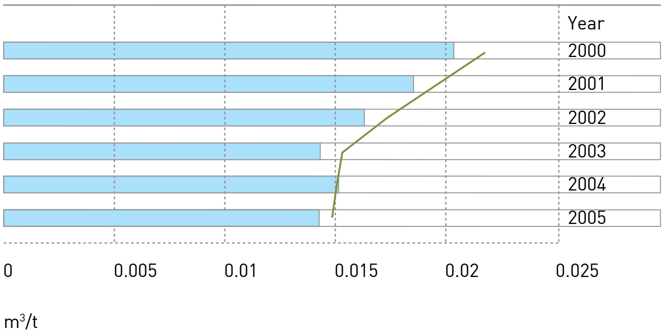
Comparison of noise level in previous years for the entire area of Luka Koper, d.d.



Striving for Rational Energy Consumption

Luka Koper, d.d. has alway devoted intensive endeavours to reducing energy consumption and energy sources. In 2005 the Company consumed 21 million kWh of electric power and 161,223 square metres of water per handled ton.

Water consumption per handled ton



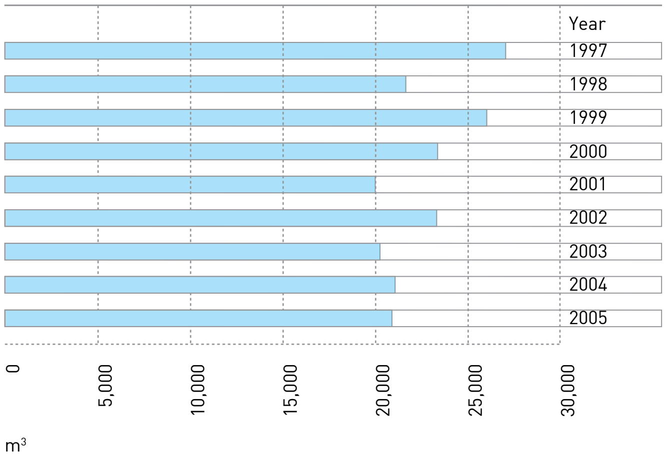
We are also practising the rational consumption of fuel. Consumption has decreased substantially in recent years due to the gradual transition from diesel fuel to environmentally more acceptable electrically driven handling machinery.

Systematic Waste Management

The environmental awareness of all employees of Luka Koper, d.d is also evident in the separate collection and recycling of wastes. 70 percent of all the Company's wastes are collected separately and recycled.

The total quantity of waste has been declining in past years. We have attained a visible reduction in the quantity of unused wastes and mproved the cleanliness and appearance of our working environment, thereby increasing the cost-effectiveness of our operations.

Quantity of collected wastes



Environmental Views are Reported to the Public

Part of our business philosophy includes cooperation with local communities and the public in the area of environmental policy. Information is provided to the public on all relevant environmental views on our website, the electronic newspaper Notice, the Company bulletin "Luški glasnik", and in the mass media. Information is delivered to relevant state authorities in the prescribed manner in in the legally prescribed terms. The Report on Sustainable Development is published within the scope of the Annual Business Report. The Company's Business Report is published in the Slovene and English languages on our web pages. We issue publications on the topic of the development of Luka Koper, d.d. and send them to local communities and other interested parties. We organize interactive workshops, publish specialized articles on the topic of sustainable development, and actively participate in various environmental conferences. We also collect opinions on the satisfaction of the public with environmental management activities.

Environmental Goals in 2006

Luka Koper, d.d. has set the following strategic environmental goals for 2006:

- To attain a high level of conformity of Luka Koper's appearance with the surrounding environment in line with the guidelines of European directives for improving and conserving the quality of air and managing the environment.
- To continue to actively develop new methods and models for efficient environmental management and communication with the social environment.
- To harmonize the operation of the port system to the upgrading of the ISO14001:96 into the ISO 14001:04 standard.
- Our principal goal is to reduce the average annual concentrations of inhalable dust in line with European guidelines.

Continuing to Reduce Negative Impacts on the Environment

The operational part of our environmental activities will in future be oriented towards reducing and preventing dust and noise emissions, and reducing other unfavourable impacts of port activities on the environment.

Our goals:

- To reduce by 6 percent the share of unseparated wastes on the level of the group.
- To prepare and implement solutions for at least one establish negative influence of port manipulations on the environment.
- To increase the share of separated wastes above 74 percent.

Operations of Subsidiaries

Luka Koper Pristan d.o.o.

Luka Koper Pristan d.o.o. complements the business operations of the parent company, Luka Koper, d.d., by providing support in the performance of hotel and accommodation services. The company was established in 1995 and is fully (100 percent) owned by Luka Koper, d.d.. Luka Koper Pristan d.o.o. manages Hotel Garni Pristan and Dom Prisoje in Koper, which in 2005 represented two separate organizational and business units. In 2005 the company was managed by Franko Križman. On the last day of 2005, the company had 6 employees.
In the past year, Luka Koper Pristan d.o.o. generated SIT 151.7 million in operating revenues and concluded the business year with a net profit of SIT 12.9 million. The ratio of net profit to total revenues amounted to 8.5 percent, and the net return on owner's capital was 1.8 percent.

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 percent) owned by Luka Koper, d.d.. On 31 December 2005 the company had 242 employees, of which 179 are disabled persons and 63 are other employees.
The company is managed by Iztok Faganeli, University Graduate Mechanical Engineer. Its activities are performed in four divisions: the Maintenance division, Production and Services division, Luka Koper service division and in the Maritime and Public Service division.
In 2005, INPO, d.o.o. generated SIT 1.2897 billion in operating revenues and concluded the business year with a net profit of SIT 198 million. The company's net profit to total revenues amounted to 15.4 percent, and the net return on owner's capital was 34.4 percent.

Adria-Tow, d.o.o.

The basic activity of Adria-Tow, d.o.o. is the performance of ship towing services. The company also performs other services such as ship supply, rescue services and assistance to vessels at sea. The company was established in 1992 and is managed by Robert Gerk, Electrical Engineer. Luka Koper, d.d. has a 50-percent ownership share in the company.
In 2005, Adria-Tow, d.o.o. generated SIT 769.7 million in operating revenues, and concluded the business year with a net profit of SIT 143.2 million. The ratio of net profit to total revenues amounted to 18.6 percent, and the net return on owner's capital was 43.8 percent.

Luka Kopar Beograd d.o.o.

The company is dormant and did not carry out any operations in 2005. It was established in 2002 for the purpose of strengthening the market position of Luka Koper, d.d. on the markets of Serbia and Montenegro. Luka Koper, d.d. has a 90 percent ownership share in the company.

We are custodians of goods.

Under our watchful eye, these goods continue their route, acquire new value, or change their owner on the timber exchange. Quality of services is one of the competitive orientations of the Slovene economy and of Luka Koper as well. We have united the requirements of different international quality standards and the principles of business excellence into a uniform management system. We are the first port service company in Europe to have introduced quality standards in our entire operations. In 2005 we received the European award for business excellence from the EFQM foundation.

Audited Financial Statements for the Year 2005 with Notes of Luka Koper, d.d.

Auditor's Report

Deloitte

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AUDITORS' REPORT

to the owners of
Luka Koper, d.d.

We have audited the accompanying balance sheet of Luka Koper d.d. as of 31 December 2005 and the related statements of income, cash flows and changes in equity as well as notes to the financial statements for the year then ended. We also reviewed the Business Report prepared by the Management. The Management of the company Luka Koper d.d. is responsible for the preparation of these financial statements in accordance with Slovenian Accounting Standards. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 the significant estimates made by the Management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements with the notes referred to in the first paragraph give a true and fair view of the financial position of Luka Koper d.d. as of 31 December 2005 and the results of its operations, cash flows and changes in equity for the year then ended in accordance with Slovenian Accounting Standards.

The Business Report is consistent with the audited financial statements.

Without qualifying our opinion, we draw your attention to Item 8 of the Financial Report, under which it is explained that the concession agreement for managing, operating, developing and regularly maintaining the port infrastructure at the freight port of Koper has not yet been concluded. Until the concession agreement has been concluded, the contractual relationship between the company and the Republic of Slovenia remains governed by the lease agreement for operative quays and land owned by the Republic of Slovenia in the port of Koper from 2000.

Deloitte & Touche revizija d.o.o.

Lidija Jezernik
Certified Auditor
Member of the Board

Deloitte & Touche
revizija d.o.o.

Ljubljana, 17 February 2006

Audit. Tax. Consulting. Financial Advisory.

Družba je članica
Deloitte Touche Tohmatsu

1. Income Statement

(In thousands of SIT)	Notes	2005	2004
Revenues from services sold in the domestic market		2,716,960	2,255,897
Revenues from services sold in foreign markets		16,404,963	13,695,329
Revenues from sales of goods and materials - domestic and foreign markets		3,519	1,825
Revenues from use and cancellation of long-term provisions		36,317	36,339
Revenues from rents		709,828	566,489
Other revenues related to products and services		200,188	168,408
Revaluatory operating revenues		622,112	8,650
Operating revenues	7.1.1	20,693,887	16,732,937
Operating costs	7.1.2	16,797,632	15,276,262
Costs of materials	7.1.2.1	1,044,007	872,188
Costs of services	7.1.2.2	6,540,941	5,577,637
Write-downs	7.1.2.3	3,196,274	3,038,987
Long-term provisions	7.1.2.4	0	116,300
Labour costs	7.1.2.5	4,734,017	4,521,296
Other costs	7.1.2.6	1,281,391	1,149,060
Costs of goods and material sold	7.1.2.7	1,002	794
Operating profit or loss		3,896,255	1,456,675
Financial revenues	7.1.3	1,936,907	4,293,396
Financial expenses	7.1.3	735,168	870,435
Profit from ordinary operations		5,097,993	4,879,636
Extraordinary revenues	7.1.4	0	89,095
Extraordinary expenses	7.1.4	0	107,900
Profit or loss from extraordinary operations		0	18,805
Total profit		5,097,993	4,860,831
Income tax	7.1.5	989,004	679,238
Deferred taxes	7.1.5.1	79,992	0
Net profit for the financial year	7.1.6	4,188,981	4,181,593

The Notes to these Financial Statements represent an integral part of the Financial Statements and should be read in connection with them.

2. Balance Sheet

	(In thousands of SIT)	Notes	31 Dec 2005	31 Dec 2004
	Assets		**74,927,437**	**74,164,428**
	A. Non-current assets	7.2.1	61,632,172	61,025,583
I	**Intangible long-term assets**	**7.2.1.1**	**334,182**	**610,630**
2	Long-term property rights		334,182	610,630
II	**Tangible fixed assets**	**7.2.1.1**	**35,564,135**	**34,638,392**
1	Land and buildings		28,514,067	26,976,007
A	Land		425,739	425,739
B	Buildings		28,088,328	26,550,268
2	Equipment and machinery		6,284,679	5,209,306
3	Fixed assets in acquisition		765,390	2,453,079
III	**Long-term investments**	**7.2.1.2**	**25,733,855**	**25,776,560**
1	Investments in shares of Group companies		1,651,522	1,370,610
2	Investments in shares of associated companies		13,814,976	12,790,111
3	Other long-term investments		8,187,041	9,051,842
4	Other long-term financial receivables		2,080,316	2,563,997
	B. Current assets	7.2.2	13,282,274	13,118,087
I	**Inventories**	**7.2.2.1**	**0**	**0**
II	**Operating receivables**	**7.2.2.2**	**4,391,416**	**4,634,273**
A	Long-term operating receivables		2,804	2,609
1	Long-term operating receivables from others		2,804	2,609
B	Receivables for deferred taxes		79,992	0
C	Short-term operating receivables		4,308,620	4,631,664
1	Short-term operating receivables from Group companies		9,342	4,910
2	Short-term operating receivables from others		4,299,278	4,626,754
III	**Short-term investments**	**7.2.2.3**	**8,562,660**	**8,253,206**
3	Other short-term investments		8,562,660	8,253,206
IV	**Bank balance**	**7.2.2.4**	**328,198**	**230,608**
	C. Deferred expenses and accrued revenues	7.2.2.5	12,991	20,759
	D. Off-balance sheet assets	7.2.2.6	1,807,966	3,440,541

	(In thousands of SIT)	Notes	31 Dec 2005	31 Dec 2004
	Equity and liabilities		**74,927,437**	**74,164,428**
	A. Capital	7.2.3	63,115,568	60,604,558
I	**Called-up capital**		**14,000,000**	**14,000,000**
1	Share capital		14,000,000	14,000,000
II	**Capital surplus**		**0**	**0**
III	**Reserves from profit**		**22,167,891**	**20,274,496**
1	Legal reserves		4,496,872	4,496,872
4	Other revenue reserves		17,671,019	15,777,624
IV	**Net profit or loss from previous years**		**1,585,557**	**1,494,761**
V	**Net profit or loss for the current year**		**2,094,490**	**2,090,796**
VII	**Equity revaluation reserve**		**23,267,630**	**22,744,504**
1	General equity revaluation reserve		21,462,806	21,462,806
2	Specific equity revaluation reserve		1,804,824	1,281,698
	B. Provisions	7.2.4	406,081	320,532
1	Other provisions		406,081	320,532
	C. Financial and operating liabilities		11,185,041	13,006,985
A	**Long-term financial and operating liabilities**	**7.2.5**	**7,950,635**	**3,577,692**
1	Long-term financial liabilities to banks		7,939,185	3,557,223
2	Long-term financial and operating liabilities to others		11,450	20,469
B	**Short-term financial and operating liabilities**	**7.2.6**	**3,234,406**	**9,429,293**
1	Short-term financial liabilities to banks		137,112	3,909,451
2	Short-term operating liabilities to suppliers		1,031,150	1,878,442
3	Short-term operating liabilities for advances		877	261,015
4	Short-term financial and operating liabilities to Group companies		86,448	1,094,820
5	Short-term financial and operating liabilities to associated companies		245,722	268,895
6	Short-term financial and operating liabilities to others		1,733,097	2,016,670
	D. Accrued expenses and deferred revenues	7.2.7	220,747	232,354
	E. Off-balance sheet liabilities		1,807,966	3,440,541

The Notes to these Financial Statements represent an integral part of the Financial Statements and should be read in connection with them.

3. Cash Flow Statement

	(In thousands of SIT)	2005	2004
A.	**Cash flows from operating activities**		
a)	Inflows from operating activities	20,391,742	16,354,500
	Operating revenues	20,084,869	16,759,502
	Extraordinary operating revenues	0	89,095
	Opening less closing operating receivables	299,104	-485,909
	Opening less closing deferred expenses/accrued revenues	7,769	-8,188
b	Outflows from operating activities	15,829,381	11,945,453
	Operating expenses excluding depreciation and long-term provisions	13,512,644	12,020,081
	Extraordinary operating expenses	0	107,900
	Income taxes and other taxes not included in operating expenses	909,011	679,238
	Closing less opening inventory	0	-6,778
	Opening less closing operating liabilities	1,396,119	-842,694
	Opening less closing accrued expenses/deferred revenues	11,607	-12,294
c)	Net cash flows from operating activities (a less b or b less a)	4,562,361	4,409,047
B.	**Cash flows from investing activities**		
a)	Inflows from investing activities	2,179,510	7,000,052
	Financial revenues related to investing activities (excluding revaluations)	1,371,786	3,691,402
	Offset decrease of intangible long-term assets (excluding revaluations)	70,841	
	Offset decrease of long-term investments (excluding revaluations)	736,883	3,308,650
	Offset decrease of short-term investments (excluding revaluations)	0	0

	(In thousands of SIT)	2005	2004
b)	Outflows from investing activities	3,575,034	9,497,491
	Financial expenses related to investing (excluding revaluations)	1,338	0
	Offset increase of intangible long-term assets (excluding revaluations)	0	223,448
	Offset increase of tangible fixed assets (excluding revaluations and contributions-in-kind as an increase of equity)	3,264,242	6,050,087
	Offset increase of short-term financial investments (excluding revaluations)	309,454	3,223,956
c)	Net cash flows from investing activities (a less b or b less a)	-1,395,524	-2,497,439
C.	**Cash flows from financing activities**		
a)	Inflows from financing activities	4,467,511	2,808,895
	Offset increase of long-term provisions (excluding revaluations)	85,549	
	Offset increase of long-term financial liabilities (excluding revaluations)	4,381,962	2,808,895
b)	Outflows from financing activities	7,536,757	4,580,647
	Financial expenses related to financing (excluding revaluations)	391,763	780,402
	Decrease of equity (without net loss for the financial year)	2,201,096	2,201,096
	Offset decrease of long-term provisions (excluding revaluations)	0	71,520
	Offset decrease of short-term financial liabilities (excluding revaluations)	4,943,898	1,527,629
c)	Net cash flows from financing activities (a less b or b less a)	-3,069,246	-1,771,752
D.	**Closing balance of cash and cash equivalents**	**328,198**	**230,607**
x)	Net cash flow for the period (sum of Ac, Bc and Cc)	97,591	139,856
y)	Opening balance of cash and cash equivalents	230,607	90,751

The Notes to these Financial Statements represent an integral part of the Financial Statements and should be read in connection with them.

4. Statement of Changes in Equity

Changes in equity from 1st January to 31 December 2005 (In thousands of SIT)	Share capital I/1	Capital surplus II/1	Legal reserves III/1	Other revenue reserves III/4	Net profit from previous years IV/1	Net profit for the year V/1	General equity revaluation reserves VI/1	Specific equity revaluation reserves VI/2	Total equity
Balance as at 1st January 2005	**14,000,000**	**0**	**4,496,872**	**15,777,624**	**1,494,761**	**2,090,797**	**21,462,806**	**1,281,698**	**60,604,558**
Transfers to equity	0	0	0	0	0	4,188,981	0	523,126	4,712,107
Net profit or loss for the year						4,188,981			4,188,981
Increase of specific equity revaluation reserve								523,126	523,126
Transfers within equity	0	0	0	4,094,490	90,797	-4,185,287	0	0	0
Allocation of net profit by resolution of the Management and Supervisory Boards				2,094,490		-2,094,490			0
Allocation of net profit to additional reserves by resolution of the General Meeting				2,000,000	90,797	-2,090,797			0
Transfers from equity	0	0	0	-2,201,096	0	0	0	0	-2,201,096
Dividend distribution				-2,201,096					-2,201,096
Balance as at 31 December 2005	**14,000,000**	**0**	**4,496,872**	**17,671,018**	**1,585,558**	**2,094,491**	**21,462,806**	**1,804,824**	**63,115,569**
Distributable profit				2,308,196	1,585,558	2,094,491			5,988,244

The Notes to these Financial Statements represent an integral part of the Financial Statements and should be read in connection with them.

Changes in equity from 1st January to 31 December 2004 (In thousands of SIT)	Share capital I/1	Capital surplus II/1	Legal reserves III/1	Other revenue reserves III/4	Net profit from previous years IV/1	Net profit for the year V/1	General equity revaluation reserves VI/1	Specific equity revaluation reserves VI/2	Total equity
Balance as at 1st January 2004	**14,000,000**	**0**	**4,496,872**	**14,087,923**	**1,352,037**	**1,942,724**	**21,462,806**	**267,926**	**57,610,288**
Transfers to equity	0	0	0	0	0	4,181,593	0	1,013,772	5,195,365
Net profit or loss for the year						4,181,593			4,181,593
Increase of specific equity revaluation reserve								1,013,772	1,013,772
Transfers within equity	0	0	0	3,890,796	142,724	-4,033,520	0	0	0
Allocation of net profit by resolution of the Management and Supervisory Boards				2,090,796		-2,090,796			0
Allocation of net profit to additional reserves by resolution of the General Meeting				1,800,000	-1,352,037	-447,963			0
Other allocation of equity items					1,494,761	-1,494,761			0
Transfers from equity	0	0	0	-2,201,096	0	0	0	0	-2,201,096
Dividend distribution				-2,201,096					-2,201,096
Balance as at 31 December 2004	**14,000,000**	**0**	**4,496,872**	**15,777,624**	**1,494,761**	**2,090,797**	**21,462,806**	**1,281,698**	**60,604,558**
Distributable profit				2,201,096	1,494,761	2,090,797			5,786,653

The Notes to these Financial Statements represent an integral part of the Financial Statements and should be read in connection with them.

5. Financial Statements with Notes

The Financial Statements with notes and disclosures of Luka Koper, d.d. have been prepared in accordance with the Commercial Companies Act and the accounting and reporting requirements of the Slovenian Accounting Standards, which are the prescribed accounting guidelines for professional application. These standards are therefore professional rules which define in detail and explain the legally prescribed fundamental accounting rules and requirements, and prescribe the methods of their application. They are based on the Commercial Companies Act and on the national Code of Accounting Principles.

The Financial Statements with notes give a true and fair view of the business operations of the companies on a going concern basis for the financial years 2004 and 2005, 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.

Luka Koper d.d. kept its capital invested during 2005 in the following subsidiaries:
- Luka Koper Pristan d.o.o. (100 % ownership share),
- Luka Koper INPO, d.o.o. (100 % ownership share),
- Luka Kopar Beograd d.o.o. (90 % ownership share) - dormant, and
- Adria-Tow, d.o.o. (50 % ownership share),

and **associated companies**, in which it exhibits material influence and are disclosed in the financial statements of the parent company according to the equity method:

Associated companies Balance as of 31 Dec 2005 (In thousands of SIT)	Share (in %)	Share capital	Revenues value	Assets value	Financial and operating liabilities values	Net profit or loss
Intereuropa d.d. Koper	24.55	7,902,413	30,660,651	46,336,134	8,403,305	2,472,823
Avtoservis Koper d.o.o.	49	40,770	774,501	555,982	277,851	75,240
Adriafin d.o.o. Koper	39.44	200,000	400,784	5,454,748	1,096	103,411
Actual I.T., d.o.o. Koper	26	103,000	2,213,651	1,280,261	1,813	8,088
* Kopinvest Netherlands BV	25	8,625	0	0	0	0
Golf Istra d.o.o. Koper	20	56,688	958	58,787	15,568	-40,578
* Adria Transport d.o.o. Koper	50	24,000	0	0	0	0

* The company Adria Transport, in which Luka Koper d.d. holds a 50 % ownership stake, was established in May 2005, but is not yet operational. We did not receive any data for the company Kopinvest Netherlands BV, in which Luka Koper d.d. holds a 25 % ownership stake and will therefore disclose its operating results during semi-annual reporting.

6. Accounting Policies and Disclosures

The Company presents itself to the public through four individual and consolidated financial statements, that is the balance sheet, income statement, statement of changes in financial position, and statement of changes in equity for the business years ended 31 December 2004 and 2005. All fundamental statements complement one another.
Luka Koper, d.d. is a large company whose securities are traded on the organized stock exchange and is thus subject to an audit. We disclose individual categories in accordance with relevant standards and the Companies Act. Disclosures are prescribed for all material issues, while the nature and level of importance is defined in the Company's Accounting Policies.

6.1 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, that is the last day of the year. Disclosed assets and liabilities are reconciled to their inventory values.

6.1.1 Fixed assets

Intangible long-term assets, appearing in the form of rights which co-create operating capacities, are disclosed at cost and depreciated over a period of 10 years using the straight-line depreciation method.
The cost also includes import and non-refundable purchase duties, whereas any potential interest does not increase the value at cost of a certain asset.
The Company discloses data on those categories of intangible long-term assets that are accounted for in the 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 comprise land, buildings, equipment, on-going investments and advances. The Company holds no equipment under financial lease arrangements. Assets owned by the Company for the purpose of performing its activities are disclosed in the balance sheet at their net book value, which is the difference between cost value and accumulated depreciation, and is considered to be their carrying value. The cost of a fixed asset is comprised of those purchase costs that can be directly attributed to such asset.
Accumulated allowance or depreciation of tangible fixed assets is calculated on a single item basis. Accumulated depreciation is calculated on a group basis only for small tools. The Company uses the straight-line depreciation method for the gradual transfer of asset value to products and services.

Depreciation rates:

Construction facilities:	
- operative quays	2 %
- open areas	5 %
- buildings	1.5 % to 5 %
- railway lines	4 %
- infrastructure	2 % to 8.3 %
Equipment:	
- computer equipment	25 %
- reloading equipment	10 % to 33.3 %
- container cranes and landing bridges	10 % to 12.5 %
- boats, dredgers	6.6 % to 12.5 %
- transport means	12.5 % to 16.6 %
- machinery maintenance equipment	9 % to 16.6 %

- cooling equipment	20 % and up
- wood processing equipment	9 % to 14.3 %
- cleaning, airing and heating equipment	12.5 % to 20 %
- instruments and appliances	10 % to 33.3 %
- furniture and other office equipment	12.5 % to 33.3 %
- fire extinguishing equipment	12.5 % to 14.3 %
- restaurant equipment	12.5 % to 14.3 %
Small tools:	11 % to 33.3 %

No depreciation rates or methods were changed in 2005. Tangible fixed assets are no longer subject to bookkeeping if no economic benefits are expected from their use or if they were disposed of.

6.1.2 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 run.

The following long-term investments are disclosed separately:
- participating interests and shares in associated companies,
- other interests and shares,
- investments in precious metals, artworks,
- long-term loans granted to others.

Initially, long-term investments are recognized as the amount of cash or other equivalent means paid on the date of each investment. An investment disclosed in foreign currency is revalued according to the middle exchange rate of the Bank of Slovenia applicable on the last day of the business year. The effects of changes in the tolar countervalue as at the balance sheet date create, as foreign currency differences, financial revenues and financial expenses.
Profits of subsidiary and associated companies are disclosed by increasing the value of an investment and special equity revaluation adjustment. If a company discloses a net loss for the business year, the equity revaluation adjustment is first used, and if it does not exist, such loss is disclosed by charging financial expenses. If the shares of associated companies are listed on a stock exchange and exhibit impaired value, the dividend discount valuation model is applied, whereas the discount rate is determined using the CAPM model.
The value of investments in shares quoted on the stock exchange is adjusted to their market price, if their market value is lower than their carrying value on the last day of the year. If the market price of the shares is higher than their cost, the shares are valued at cost.
Long-term loans granted are recognized in their outstanding amounts. Interest is calculated in accordance with underlying agreements. Long-term loans maturing within a period of one year are recorded as short-term loans. Impairments of long-term investments are recorded under financial expenses.

6.1.3 Inventories

The Company does not disclose or record any inventories.

6.1.4 Operating receivables

Long-term and short-term trade receivables, receivables due from the State and employees are recorded separately in our accounting records. Interest receivables from the above-mentioned receivables are also disclosed under operating receivables. Long-term and short-term operating receivables are initially recognized in amounts derived from related agreements or relevant bookkeeping documents. Operating receivables in foreign currencies are converted into domestic currency using the middle exchange rate of the Bank of Slovenia applicable on the last day of the business year.
Interest calculated on operating receivables increase the financial revenues.
The adequacy of the disclosed amount of a single receivable is assessed at the end of the accounting period on the basis of substantiated evidence concerning the collectability of such receivables. We make allowances for bad and doubtful debts or write them off entirely. The amount of allowances made in the current year is charged against operating revaluatory expenses for the entire amount of such receivables. The records of these individual allowances are disclosed separately due to temporary differences in deferred taxes.

6.1.5 Short-term investments

Short-term investments in securities, short-term loans granted and other investments are disclosed separately in accounting records. Short-term investments are initially recognised at cost increased by costs directly attributable to an investment. Short-term investments in granted short-term loans are initially recognised according to paid amounts, which represent a principal portion of a loan. Accrued interest is added to the principal amount based on loan agreements.
The adequacy of the value of each short-term investment is assessed at the end of each financial year. If the risk of receiving the full principal and interest amounts is increased (delayed payments, composition, legal action, ...), the impairment of such investment is determined and its carrying value is decreased accordingly, while financial revaluatory expenses are recognized for the amount of difference.
If a short-term investment decreases in value due to the proven fair value, which is less than the cost value, then its value is adjusted and the financial revaluatory expenses are recognized. We do not perform the strengthening of short-term investments. Only those short-term investments whose value exceeds 10 percent of the total value of all short-term investments are disclosed, if such investments are equal to at least 10 percent of the total value of assets on the balance sheet date.

6.1.6 Cash and cash equivalents, deferred expenses and accrued revenues

Cash comprises tolar and foreign currency held on accounts with foreign banks. The balance of cash in foreign currencies is converted into domestic currency using the middle exchange rate of the Bank of Slovenia applicable on the last day of the business 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.

6.1.7 Equity

Equity represents a liability towards owners, which does not become payable after a company ceases to operate as a going concern.
The Company's equity is composed of: called-up capital, capital surplus, reserves from profit, net profit or loss for the financial year, and equity revaluation reserve. The Company's share capital comprises preference and ordinary shares of the parent company and equity interests in subsidiaries.
The Company records legal reserves at least in the amount of 10 % of its share capital. The Company has no capital surplus, which is recorded from paid-in capital surplus or surplus arising from the sale of treasury shares above their average cost.
Other reserves from profit represent the non-nominated portion of capital, and increase on an annual level through the allocation of net profit.
All subsidiary companies recorded a profit at the end of 2005. The results have thus increased the special equity revaluation adjustment according to the equity method.
We did not record any general equity revaluation adjustment in accordance with the provisions of Slovene Accounting Standards.
The Company discloses equity items and their movements in the Statement of Changes in Equity.

6.1.8 Long-term provisions

Long-term provisions appear in cases when the Company's liability is the consequence of a past event and it is probable that its settlement will result in the reduction of assets. Provisions are recorded only if the liability can be reliably measured.
Long-term provisions formed in previous years are reduced in proportion to the 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 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.
The Company disclosed deferred revenues from grants received in the amount of SIT 60,576 thousand.

6.1.9 Long-term financial liabilities

Long-term financial liabilities include received long-term loans. These are disclosed according to the outstanding amounts of loans received. Long-term loans are strengthened, if the value of long-term liabilities is lower than their fair value on the balance sheet date. The impairment of financial liabilities is neither assessed nor recognized.

6.1.10 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 strengthened 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.

6.1.11 Short-term operating liabilities

Liabilities to suppliers, the State and employees are disclosed separately. Operating liabilities also include interest liabilities and liabilities for participation in profit distribution.
Operating liabilities expressed in foreign currencies are converted into domestic currency according to the middle exchange rate of the Bank of Slovenia applicable on the last day of the financial year.
Short-term financial liabilities are strengthened if their carrying values are lower than their fair values. The 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 of persons: members of the Management Board, members of the Supervisory Board and internal shareholders.

6.1.12 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 financial period. The current year's result already includes the effects of undertaken liabilities.

6.1.13 Corporate Income Tax

Income tax is calculated in accordance with the Corporate Income Tax Act at a rate of 25 % of the taxable base. The base for the calculation of income tax is gross profit increased by non-deductible costs and decreased by permitted tax relief. Income tax liability is then calculated from such taxable base. Luka Koper, d.d. disclosed SIT 989,004 thousand of income tax liability for 2005.

6.1.13.1 Deferred Taxes

Deferred taxes are directly linked to the basic accounting principle of matching revenues with expenses, which stipulates that appropriate revenues are matched to corresponding expenses with the intention of disclosing an appropriate result for the relevant reporting period.
Deferred taxes appear as deferred tax receivables or deferred tax liabilities.
The balance sheet liability method was applied in the calculation of deferred taxes. The carrying value of assets and liabilities was compared with their tax values and the difference was then defined as permanent or temporary.
Temporary differences were classified as taxable and deductible. Taxable temporary differences later increase taxable amounts and deferred tax liabilities. Deductible temporary differences later decrease taxable amounts and increase deferred tax receivables.

Disclosure of Items in the Income Statement

An income statement is a fundamental financial statement which discloses the amount of revenues and expenses realized by the Company in one year and the net profit or loss that corresponds to such operating performance. The income statement was compiled according to version 1, in which the business result is determined gradually. Costs are disclosed in accordance with their natural function.
The Company shall calculate the effects of the general revaluation of equity on the operating result regardless of whether such general revaluation of equity is actually performed or not.
All items in the income statement are disclosed within the three-digit accounts of the Company's Chart of Accounts.
Additional information that is not prescribed in the income statement, but deemed necessary for fair representation of the Company's operations, is disclosed in the Company's Business Report.

Disclosure of Cash Flow Statement

A funds flow statement provides users with information concerning the Company's acquisition of cash and cash equivalents, their usage, as well as their balance at the beginning and end of the accounting period.
The items in the funds flow statement disclose which version was used in compiling this statement.

7. Notes to the Financial Statements

7.1 Notes to the Income Statement

7.1.1 Operating revenues

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

(In thousands of SIT)	2005	2004
Operating revenues	20,693,887	16,732,937
Revenues from services sold on the domestic market	2,716,960	2,255,897
Revenues from services sold on foreign markets	16,404,963	13,695,329
Revenues from goods and materials sold on domestic market	3,519	643
Revenues from goods and materials sold on foreign markets	0	1,182
Revenues from the use and cancellation of long-term provisions	36,317	36,339
Revenues from rents	709,828	566,489
Other revenues related to products and services	200,188	168,408
Revaluatory operating revenues	622,112	8,650

7.1.2 Operating costs

Operating costs are disclosed according to their function within the three-digit account, as the income statement was compiled according to Format I. More detailed explanations of costs in comparison to planned figures, as well as costs from the past period, are presented in the Business Report, where costs are disclosed according to their functional groups.

7.1.2.1 Costs of goods and materials

(In thousands of SIT)	2005	2004
Costs of materials	1,044,007	872,188
Costs of auxiliary materials	214,516	153,688
Costs of energy	709,531	605,714
Costs of office supplies and professional literature	32,430	28,033
Other costs of materials	87,530	84,753
Costs of goods	1,002	794
Costs of goods and material sold	1,002	794

7.1.2.2 Costs of services

(In thousands of SIT)	2005	2004
Costs of services	6,540,941	5,577,637
Costs of physical services	1,915,404	1,479,541
Costs of transportation services	602,461	601,115
Costs of maintenance of fixed assets	1,729,391	1,769,606
Rents	326,738	315,856
Reimbursements of work-related costs to employees	84,688	69,465
Payment processing costs and insurance premiums	80,669	81,001
Costs of professional and personal services	161,784	78,922
Fairs, advertising and entertainment costs	140,615	149,944
Services performed by individuals based on service contracts	93,738	189,907
Costs of other services	1,405,453	842,280

(In thousands of SIT)	2005	2004	Index 2005/04
Costs of other services	1,405,453	842,280	167
Public utility services, cleaning costs, washing, etc.	64,345	78,484	82
Public utility services - other costs	29,421	15,055	195
Costs of other services - shareholders	20,383	17,738	115
Costs of other services	697,818	191,548	364
Costs of other services - IT support	593,484	539,453	110

Costs of other services increased significantly in 2005 due to the group costs of other services (SIT 698 million).

Costs of other services are dominated by costs of freight services (SIT 231 million) and costs of car customs clearance (SIT 207 million). Characteristic of both cost groups is that they were recorded in 2004 as a deductible item from revenues (re-invoiced costs). Costs of freight services involving the transport of car windshields (SIT 31 million) and coal handling (SIT 53 million) also increased. A cost item of the subsidiary Luka Koper INPO, increased by 100 % within public utility service costs (waste removal).

7.1.2.3 Write-downs

The depreciation cost of the parent company increased by SIT 157,287 thousand in 2005 versus 2004. This increase is the reflection of increased investing in 2005.

(In thousands of SIT)	2005	2004
Write-downs	3,196,274	3,038,987
Depreciation	3,163,272	2,982,480
Revaluatory operating expenses for intangible long-term assets	2,945	2,448
Revalutory operating expenses for current assets	30,057	54,059

7.1.2.4 Long-term provisions

The balance and changes in long-term provisions are disclosed under point 7.2.4. Costs of provisions are classified in the income statement under costs according to content and are thus not disclosed under the long-term provisions category.

7.1.2.5 Labour costs

There were 679 employees employed in Luka Koper d.d. as at 31 December 2005, of which 51 were employed on the basis of individual employment contracts. There were 650 employees employed in Luka Koper d.d. as at 31 December 2004. The total amount of salaries received in 2005 by employees with individual employment contracts was SIT 627,071 thousand, compared to SIT 575,190 thousand at the end of 2004.
Costs paid out to the members of the Supervisory Board amounted to SIT 8,810 thousand in 2005, whereas in the previous year these costs were equal to SIT 5,629 thousand.

The following table presents an overview of remunerations received by the members of the Management Board in 2005 in comparison to 2004.

(In thousands of SIT)	Fixed portion of salary				Variable part of salary			
	2005		2004		2005		2004	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Chief Executive Officer 1 Jan - 7 Sept 2005	18,113	9,345	31,475	12,954	6,581	2,796	7,648	3,301
Acting Chief Executive Officer 25 Jul - 24 Oct 2005	7,496	3,079						
Chairman of the Management Board and Deputy 24 Oct - 31 Dec 2005	10,683	5,375						
Members of the Management Board 4 Nov - 31 Dec 2005	7,071	3,298						
Total	43,363	21,097	31,475	12,954	6,581	2,796	7,648	3,301

A new four-member Management Board was appointed in Luka Koper d.d. in 2005. The Company had previously been run by a single-member Management Board. The Chairman and one member of the Management Board were appointed on 24 October, 2005, while the remaining two members were appointed on 4 November, 2005. The total gross amount of the fixed portion of the salary paid to members of the Management Board was SIT 43,363 thousand, while the net amount was equal to SIT 21,097 thousand. The variable part of the salary of the Chief Executive Officer represents remuneration for successful performance in 2004 and was paid out in 2005.
The Chief Executive Officer received a severance pay in the gross amount of SIT 4,869 thousand upon his retirement or the net amount of SIT 2,517 thousand. The Chief Executive officer also received a holiday allowance in the amount of SIT 180 thousand in 2004 and 2005.

In 2005, a total gross amount of SIT 119,887 thousand was paid out in holiday allowances by Luka Koper, d.d., compared to SIT 117,168 in 2004, which is in accordance with the Decree on Holiday Allowances issued by the Government of the Republic of Slovenia. In December 2005, the employees of Luka Koper, d.d. received a 13th salary, which totalled the gross amount of SIT 240,098 thousand, in comparison with SIT 225,909 thousand at the end of 2004.
In 2002, the parent company joined the supplementary pension insurance program and allocated SIT 107,198 thousand for this purpose, while the total funds allocated for supplementary pension insurance in 2003 amounted to SIT 112,104 thousand, SIT 120,019 thousand in 2004 and SIT 124,204 thousand in 2005.

(In thousands of SIT)	2005	2004
Labour costs	4,734,017	4,521,296
Salaries	2,867,394	2,818,464
Salary compensations	488,682	416,635
Supplementary pension insurance for employees paid	128,758	126,889
Holiday allowance, reimbursements and other costs	496,082	418,084
Employer's contributions on salaries, wages and expenses	534,344	518,090
Other employer's contributions on employee remunerations	218,757	223,134

7.1.2.6 Other costs

(In thousands of SIT)	2005	2004
Other costs	1,281,391	1,149,060
Costs not related to labour and other types of costs	715,425	1,077,095
Expenditure for environmental protection	270,332	25,329
Awards to students on internship	44	50
Scholarships	6,724	4,477
Other costs	288,866	42,109

In 2005 the Company received a decision of the Tax Administration of the RS (DURS) regarding the payment of a fee for the use of building land in 2004 in the amount of SIT 804,244 thousand. On the basis thereof, the Company reduced the accrued costs in 2004 by the amount of SIT 174,052 thousand. Consequently, we have disclosed lower costs for the building land use fee in 2005. The total fee in 2005 amounted to SIT 804,244 thousand as specified in the decision of the tax administration.

7.1.3 Financial revenues and expenses

(In thousands of SIT)	2005	2004
IV. Financial revenues	1,936,907	4,293,396
Interest revenues	463,972	647,058
Revenues from dividends and share in profits of associated companies	838,152	768,807
Revenues from revaluations of receivables	185,702	291,131
Revenues from loans granted	0	3,239
Gains on sale of investments	353,951	2,513,322
Other financial revenues	15,641	26,465
Revaluatory financial revenues due to strengthening	79,489	43,374
V. Financial expenses	735,168	870,435
Interest expenses	254,448	420,170
Expenses from revaluation of debts	183,509	221,877
Expenses from sale of investments	1,338	0
Other financial expenses	1,203	21,365
Revaluatory financial expenses from impairment	294,670	207,023
Profit from financing	1,201,739	3,422,961

Financial revenues significantly decreased in 2005 in comparison to 2004 and amounted to SIT 1,936,907 thousand. Interest revenues declined mainly due to the lower volume of placements in deposits and the lowering of interest rates on standard banking products and the considerably lower volume of loans granted to other companies.
Luka Koper, d.d. sold less financial investments in 2005 than in 2004, and thus the gains on the sale of investments item is correspondingly lower. In 2005, the Company sold shares of Autocommerce d.d., Probanka d.d. and Factor banka d.d., as well as shares of Prva pokojninska družba d.d..
Financial expenses for interest decreased by 39.4 % in comparison with the previous year, and amounted to SIT 254,448 thousand. This result was due to an active credit policy and the restructuring of loans to more favourable euro loans bearing a lower interest rate.
Financial expenses from the sale of financial investments amounted to SIT 1,338 thousand in 2005 due to the amortization premium applied in the purchase of SOS2 bonds. Other financial expenses in the amount of SIT 1,203 thousand included prepaid housing loans of employees, granted discounts for prepayments and the costs of inter-banking fees.

The largest items among revaluatory financial expenses from impairment in the total amount of SIT 294,670 thousand comprise impairments of investments in the companies Bonfika and MC Medicor, and impairments of granted loans to the companies OM-DIP, Neno M, Metro AS and Digontrade. The Company expects that the majority of loans will be at least partially repaid in spite of complicated collection procedures. Allowances of investments in the associated companies Kopinvest Netherlands BV and Golf Istra amounted to SIT 29,145 thousand in 2005.
Foreign currency gains/losses, incurred as the result of preserving the value of receivables and loans, are lower in 2005 due to smaller fluctuations in the euro exchange rate.

7.1.4 Extraordinary items

(In thousands of SIT)	2005	2004
Extraordinary revenues	0	89,095
Extraordinary expenses	0	107,900

Items previously classified under extraordinary revenues and expenses were in 2005 allocated by content to Other revenues related to operating results and Other expenses.

7.1.5 Corporate Income Tax

Corporate income tax was calculated according to the Corporate Income Tax Act, which became effective on 1st January 2005, and the Law on Modifications and Amendments of the Corporate Income Tax Act, which became effective on 1st January 2006, but several of its provisions also apply for 2005.
In 2005 we also duly filed, on behalf of the parent company, an application for the acknowledgment of tax relief in accordance with the Commercial Zones Act. A Special Tax Office of the Tax Administration of the Republic of Slovenia once again issued a negative temporary decision. On 12 May 2005 Luka Koper, d.d. filed an appeal against the negative decision.
We have estimated that if the tax reliefs relating to investments in the commercial zone were taken into account, the tax liability in 2005 and 2004 would be lower by SIT 600,000 thousand and SIT 500,000 thousand, respectively.
In the beginning of 2006, the Company submitted to the Special Tax Office all the required documents serving as a basis for claiming tax reliefs related to investments in the commercial zone. To this day the Company has not yet received a response, which is why we were not able to include any tax reliefs relating to the commercial zone in the calculation of income tax again this year.
Due to the changed methodology for the completion of corporate income tax forms, we have presented a comparison with the previous year in two consecutive tables.

Calculation of corporate income tax - 2005 (In thousands of SIT)

No. in form.	Calculation of corporate income tax	2005
1.	Revenues determined according to accounting regulations	22,630,793
2.	Adjustment of revenues to the level of taxable revenues - decrease	465,723
3.	Adjustment of revenues to the level of taxable revenues - increase	19,712
4.	Taxable revenues	22,184,782
5.	Expenses determined according to accounting regulations	17,532,800
6.	Adjustment of expenses to the level of tax expenses - decrease	702,425
6.7.	Decrease of expenses by asset and liability revaluation expenses and by expenses due to the use of the equity valuation method	319,967
7.	Adjustment of expenses to the level of tax expenses - increase	5,804
8.	Tax expenses	16,836,179
9.	Diference between taxable revenues and tax expenses	5,348,603
12.	Increase of tax base	2,877
13.	Tax base	5,351,479
15.	Decrease of tax base and tax reliefs	1,395,463
16.	Income suject to tax	3,956,016
17.	Taxes	989,004
20.	Tax liability	989,004
23.	Liability for supplementary taxes	309,766
25.	Base for determination of tax advance	3,956,016

Calculation of corporate income tax - 2004 (In thousands of SIT)

No. in form.	Calculation of corporate income tax	2004
1.	Revenues	21,115,427
3.	Total revenues	21,115,427
4.	Expenses	15,928,435
5.	Tax base I	5,186,992
7.	Revenues generated through profit sharing in other companies, together with paid taxes	1,580
10.	Unused investment reserves and realised tax reliefs from investments in case of sale or disposal of assets and allocation of profit for profit sharing	16,875
11.	Increase of tax base - total (sequence no. 7 + 8 + 9 + 10)	18,455
16.	Tax base II	5,205,447
19.	Amount invested in tangible fixed assets investment (except personal motor vehicles) and intangible fixed assets	1,818,061
19. a	Tax benefit for investment start-ups in Economic Zone - investments in fixed assets	-
20.	Investment reserve	520,545
23.	Tax relief for employed disabled persons	29,870
25. a	Tax relief for employer financed pension plan	120,019
26.	Tax base III	2,716,952
27.	Tax 25 % (previous year 10 %)	679,238
	Additional data	
40.	Expenses not included under expenses in accordance with Article 12 of the Corporate Income Tax Act	157,928
42.	Default interest on taxes and contributions not duly paid	77
45.	Allowances for bad receivables made and write-offs of claims towards employees, owners or associated companies	125,332
48.	Decrease in expenses as a result of the difference between transfer prices and average prices	17,915
51.	Repayment of costs to employees exceeding the compensation specified in the Decree	13,785
56.	30 % of hospitality costs and costs of the Management and Supervisory Boards	11,124
63.	Additional data - total	326,162

7.1.5.1 Deferred Taxes

The Company disclosed SIT 79,992 thousand of receivables from deferred taxes in 2005, which were the result of temporary differences between non-tax expenses representing expenses from the revaluation of receivables and expenses from the revaluation of investments. We recorded SIT 319,967 thousand of allowances in 2005, which have increased the taxable base because they are allocated under temporary non-tax expenses. Temporary differences between accounting and taxable income will, as a rule, be eliminated upon the sale or other disposal of assets or upon substantiated write-off of a receivable.

7.1.6 Net profit for the year

The Company generated SIT 4,188,981 thousand of net profit in 2005, while in 2004 the net profit equalled 4,181,593 thousand. In accordance with Article 228 of the Companies Act, the Management Board allocated half of the net profit in the amount of SIT 2,094,490 thousand to the increase of other revenue reserves. Thus, the remaining amount of SIT 2,094,491 thousand was allocated to distributable profit for 2005.

7.2 Notes to the Balance Sheet

7.2.1 Non-current assets

Non-current assets include:

	(In thousands of SIT)	31 Dec 2005	31 Dec 2004
A.	Non-current assets	61,632,172	61,025,583
I.	**Intangible long-term assets**	**334,182**	**610,630**
II.	**Tangible fixed assets**	**35,564,135**	**34,638,392**
1.	Land and buildings	28,514,067	26,976,007
A.	Land	425,739	425,739
B.	Buildings	28,088,328	26,550,268
2.	Equipment and machinery	6,284,679	5,209,306
3.	Fixed assets in acquisition	765,390	2,453,079
III.	**Long-term investments**	**25,733,855**	**25,776,560**

7.2.1.1 Intangible fixed assets and tangible fixed assets

The following tables display the changes in the values of tangible fixed assets and intangible long-term assets in 2005 in comparison to 2004. Fixed assets are not pledged or encumbered by a mortgage.
The outstanding liabilities for the purchase of tangible fixed assets amounted to SIT 308 thousand as at 31 December 2005.

Review of the movement of tangible fixed and intangible long-term assets for the year 2005

(In thousands of SIT) 2005	Land	Buildings	Production equipment and small tools	Tangible fixed assets under acquisition	Total tangible fixed assets	Intangible long-term assets	Investment in foreign long-term assets	Intangible fixed assets under acquisition	Total intangible long-term assets
Cost									
Balance as at 1st January 2005	425,739	50,615,327	29,083,103	2,453,079	82,577,248	2,813,683	215,170	88,579	3,117,432
Increases		3,766,538	2,241,104	3,792,311	9,799,953	9,853		24,678	34,531
Decreases		-1,196,153	-40,918	-5,480,000	-6,717,071			-105,371	-105,371
Revaluation due to:									
- impairment									
- strengthening									
- abolition of impairment									
Balance as at 31 December 2005	425,739	53,185,712	31,283,289	765,390	85,660,130	2,823,536	215,170	7,886	3,046,592
Allowance									
Balance as at 1st January 2005		24,065,059	23,873,797		47,938,856	2,384,940	121,862		2,506,802
Depreciation of the current year		1,797,006	1,160,659		2,957,665	205,607			205,607
Decreases		-764,681	-35,846		-800,527				
Revaluation due to:									
- strengthening									
- impairment									
Balance as at 31 December 2005		25,097,384	24,998,610		50,095,994	2,590,547	121,862		2,712,409
Carrying value									
Balance as at 1st January 2005	425,739	26,550,268	5,209,306	2,453,079	34,638,392	428,743	93,308	88,579	610,630
Balance as at 31 December 2005	425,739	28,088,328	6,284,679	765,390	35,564,136	232,989	93,308	7,886	334,183

Review of the movement of tangible fixed and intangible long-term assets for the year 2004

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

Intangible long-term assets increased in 2005 by project documents for substitute buildings due to relocation during the construction of the northern bypass road and the construction of a passenger terminal.
The value of tangible fixed assets under acquisition disclosed as at 1st January 2005 was SIT 2,453,079 thousand, whereas during 2005 these assets increased by the amount of new purchases, that is SIT 3,792,311 thousand. The majority of unfinished investments in 2004 were completed in 2005 and were put into operation, the same applying for fixed assets purchased in 2005.

7.2.1.2 Long-term investments

Long-term investments in Luka Koper, d.d. amounted to SIT 25,733,855 thousand as at 31 December 2005. Of this figure, SIT 1,662,014 thousand represented investments in the capital of subsidiary companies and SIT 13,844,121 thousand represented investments in the capital of associated companies. Long-term investments in the capital of subsidiary companies decreased by SIT 2,652 thousand due to the sale of Logistic Service, d.o.o. in the beginning of 2005. An investment in the shares of Intereuropa d.d. is predominant among investments in associated companies. In 2005 the Company increased its share in Intereuropa d.d. by SIT 740,507 thousand, so that it now amounts to SIT 11,362,366 thousand. The shares are recorded in our accounting records at their purchase price, which on 31 December 2005 was higher than the market value of shares listed on the stock exchange. As this indicated a possible weakening of the company, we measured the recoverable value of the investment and determined that the investment in this associated company does not have to be impaired. The realized corresponding net profit in the amount of SIT 613,900 thousand was recognized under special equity revaluation adjustment, and at the same time increased the value of our investment in this associated company by the same amount.
We established a new company, Adria Transport d.o.o., and contributed 50 % of the founding share in the amount of SIT 12,000 thousand. Our investment in the associated company Kopinvest Netherlands BV was also increased in 2005 by the amount of SIT 54,144 thousand.
Investments in other long-term shares decreased in 2005 mainly due to the sale of shares of Probanka d.d. (SIT 675,566 thousand), Factor banka d.d. (SIT 256,824 thousand) and of Prva pokojninska družba d.d. (SIT 150,000 thousand). We increased our investment in the shares of Krka, d.d. by SIT 98,163 thousand and the shares of Gorenje by SIT 116,183 thousand.
The prevailing portion of investments in other shares comprises stocks listed on the stock exchange, among which the most important are Krka, Gorenja and Petrol. The shares of Banka Koper d.d. are predominant among the non-market securities.
Receivables within long-term investments include housing loans granted to employees, investments in bonds and long-term deposits. At the end of 2005, the balance of investments in bonds amounted to SIT 1,125,571 thousand. The bonds of Banka Koper BKP4, Poštna banka Slovenija PBS3 and Factor banka FB07 matured in 2005. SIT 215,035 thousand was used to purchase new bonds issued by Factor banka FB11 and NLB d.d.. The remaining investments comprise BTC2, Abanka AB04, Factor banka FB06, Probanka PRB6 and PRB7 bonds, SOS2 bonds, Poteza Naložbe PN01 and Banka Vipa VIP5 bonds.
The Company recorded a 100 % allowance for an investment in Bonifika d.o.o. in the amount of SIT 135,500 thousand, as no agreement has yet been reached for the settlement of this investment in spite of frequent endeavours in past years.
Investments in certificates of deposit in the amount of SIT 631,881 thousand are also disclosed under long-term investments. The average interest rate is 5.5 %, with final maturity in 2007.
The Company holds a put option for the shares of Banka Koper, d.d., which may be executed on 30 June 2006. The carrying value of shares in our accounting records is higher than the book value of the bank's shares on the last day of the financial year, but lower than the value stated in the option contract as at 31 December 2005; these shares were therefore not impaired. Discussions regarding mutual relations have been reopened between the largest shareholders and Sanpaolo IMI. An expression of interest was made for the retention of ownership shares by Slovene owners in Banka Koper. The Italian partner in principal agreed and announced procedures with the Bank of Slovenia for the acquisition of consent for the expansion of its voting rights. A new shareholder agreement is being prepared in accordance with the agreement between the largest shareholders, which will regulate mutual relations for the upcoming five-year period, including retention of the put option. We informed the Bank of Slovenia on the foreseen activities and the intention to conclude negotiations with the Sanpaolo IMI Group in the upcoming two-month period at the meeting held on 25 January 2005. In light of ongoing discussions, the investment is still disclosed under long-term investments.
A note was entered in the central registry of KDD (Central Securities Clearing Corporation) under the shares of Banka Koper acquired in 2002, which prevented Luka Koper to sell or freely dispose of, in any other manner, the shares of Banka Koper until 31 December 2005. Procedures for cancellation of the note preventing free disposal of the entire amount of shares (that is 53,136 shares of Banka Koper) are under way, as the above-mentioned encumbrance has expired.
In accordance with point 2.14 of SAS - Long-term investments, we disclosed all long-term deposits maturing in the upcoming year under short-term deposits as at the balance sheet date.
The amount of outstanding housing loans extended to employees on the basis of individual employment contracts and under the same conditions as applicable for other employees of the Company equalled SIT 21,411,000 as at 31 December 2005. The current interest rate is 6 %.

(In thousands of SIT)	31 Dec 2005	31 Dec 2004
III. Long-term investments	25,733,855	25,776,560
Investments in shares of Group companies	1,662,014	1,381,102
Allowance made	-10,492	-10,492
Investments in associated companies	13,844,121	12,797,908
Allowance made	-29,145	-7,797
Other investments in stocks and shares	8,307,343	9,175,404
Allowance made	-120,302	-123,562
Other long-term investments	135,500	135,567
Allowance for other invested assets	-135,500	0
Investments in precious metals, paintings and precious stones	1,000	1,000
Granted long-term housing loans	329,296	386,680
Allowance made	-16,449	-20,293
Long-term loans granted to others	48,586	49,694
Long-term loans granted through bond purchases from others	1,125,571	1,379,027
Allowance made	-39,569	
Other long-term investments - certificates of deposit	631,881	632,322

7.2.2 Current assets

7.2.2.1 Inventory

Similar to 2004, no inventory was disclosed in 2005.

7.2.2.2 Operating receivables

(In thousands of SIT)	31 Dec 2005	31 Dec 2004
II. Operating receivables	4,391,416	4,634,273
a. Long-term operating receivables	**2,804**	**2,609**
Long-term guarantees granted	2,695	2,411
Other long-term operating receivables	109	198
b. Receivables for deferred taxes	**79,992**	**0**
c. Short-term operating receivables	**4,308,620**	**4,631,664**
Short-term accounts receivable-domestic	811,052	441,812
Allowance for doubtful receivables	-65,924	-57,202
Short-term accounts receivable-foreign	1,264,629	1,173,578
Short-term domestic commodity credit	0	89,250
Advances given for operating current assets	128,272	751,293
Short-term receivables from exporters	1,520,990	1,324,020
Allowance for doubtful receivables	-19,603	-39,822
Short-term receivables from interest	13,777	17,932
Allowance for interest	-2,332	-1,091
Receivables from input VAT	67,459	45,040
Other short-term receivables	363,671	317,663
Receivables from taxes and excise taxes	226,629	569,191

Receivables for deferred taxes in the amount of SIT 79,992 thousand appear for the first time this year under the receivables item and represent the revaluation of investments and the revaluation of trade receivables.

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

Luka Koper has no outstanding open claims towards the members of the Management and Supervisory Boards.
In most cases, recorded allowances for receivables overdue over 365 days had already been recorded for the parent company in the past; that is in cases of doubtful receivables (bankruptcy, composition, etc.).

The maturity structure presented below includes domestic and foreign trade receivables, receivables from exporters and interest receivables.

(In thousands of SIT)	Total receivables	Total due receivables	Overdue up to 30 days	Overdue 31-60 days	Overdue 61-90 days	Overdue 91-180 days	Overdue 181-365 days	Overdue more than 365 days
31 Dec 2005	3,610,448	2,690,748	257,936	105,760	26,346	66,277	384,584	78,797
In %	100	75	7	3	1	2	10	2
31 Dec 2004	2,957,343	2,438,619	263,431	42,446	58,071	25,533	14,319	114,921
In %	100	83	9	1	2	1	0	4

Changes in allowances for receivables in 2005

(In thousands of SIT)	
Allowance for receivables as at 1st January 2005	98,115
Write-offs during the year	-17,222
Payments during the year	-23,090
Additional increase of allowance	+30,057
Final balance of allowances as at 31 December 2005	87,860

7.2.2.3 Short-term investments

(In thousands of SIT)	31 Dec 2005	31 Dec 2004
III. Short-term investments	8,562,660	8,253,206
Other shares bought for resale	0	1,445,642
Other securities bought for resale	1,228,249	503,740
Allowance	0	0
Short-term loans granted	7,448,260	6,394,316
Allowance for doubtful loans	-113,849	-90,492

Short-term investments amounted to SIT 8,562,660 thousand as at 31 December 2005 and increased by SIT 309,454 thousand in comparison to the end of 2004. This difference is mostly due to the sale of shares of the company Autocommerce, d.d. in the amount of SIT 1,383,757 thousand and the increase of short-term investments derived from the rebooking of long-term bonds and deposits under short-term items, as the latter mature within the upcoming financial year (BCE4 and PBS4 bonds), and the purchase of mutual fund units. We replaced short-term loans granted to banks with investments in certificates of deposit of commercial banks due to more favourable interest rates.
The average interest rate charged on granted short-term loans was 3.78 percent at the end of 2005.

7.2.2.4 Bank balance

(In thousands of SIT)	31 Dec 2005	31 Dec 2004
IV. Bank balance	328,198	230,608
Tolar funds on accounts	1,000	3,603
Foreign currency funds on accounts	327,198	227,005

7.2.2.5 Deferred expenses and accrued revenues

(In thousands of SIT)	31 Dec 2005	31 Dec 2004
C. Deferred expenses and accrued revenues	12,991	20,759
Insurance premiums	9,773	11,950
Short-term deferred other expenses	3,218	8,809

7.2.2.6 Off-balance sheet liabilities

Contingent liabilities are disclosed under off-balance sheet items. A balance in the amount of SIT 1,807,966 thousand was disclosed as at 31 December 2005 (the balance as at 31 December 2004 amounted to SIT 3,440,541 thousand). Contingent liabilities comprise:
- guarantee issued for a loan to Adria-Tow, d.o.o. in the amount of SIT 428,185 thousand and to Adriafin d.o.o. in the amount of SIT 236,281 thousand;
- guarantees issued to others - Ministry of Finance in the amount of SIT 320,000 thousand and the Thermal Power Plant Ljubljana in the amount of SIT 62,098 thousand;
- extended letters of credit to suppliers Konecranes VLC Corporation in the amount of SIT 54,240 thousand and Dificon Valves GmbH in the amount of SIT 7,972 thousand;
- short-term deposits pledged for a loan received by Luka Koper, d.d. with Banka Koper in the amount of SIT 500,000 thousand.

Receivables and liabilities from Centroprom Beograd in the amount of SIT 199,190 thousand are also recorded under off-balance sheet items.

7.2.3 Equity

(In thousands of SIT)	31 Dec 2005	31 Dec 2004
A. Equity	63,115,568	60,604,558
I. Called-up capital	**14,000,000**	**14,000,000**
A. Share capital	14,000,000	14,000,000
II. Capital surplus	**0**	**0**
III. Reserves from profit	**22,167,891**	**20,274,496**
A. Legal reserves	4,496,872	4,496,872
B. Reserves for treasury shares	0	0
C. Statutory reserves	0	0
D. Other Reserves from profit	17,671,019	15,777,624
IV. Net profit or loss from prior year	**1,585,557**	**1,494,761**
V. Net profit or loss for the current year	**2,094,490**	**2,090,796**
VII. Equity revaluation reserve	**23,267,630**	**22,744,504**
A. General equity revaluation reserve	21,462,806	21,462,806
B. Special equity revaluation reserve	1,804,824	1,281,698

The net profit for the financial year amounted to SIT 4,188,981 thousand. As in 2004, the general revaluation of equity in 2005 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 general revaluation in order to preserve the equity purchasing power in Euros (-0.07 %), and established that the achieved net profit would be higher by SIT 41,249 thousand and would amount to SIT 4,230,230 thousand. Considering the growth of consumer prices (2.3 %), net profit would be reduced by SIT 1,355,311 thousand and would amount to SIT 2,833,669 thousand SIT.

7.2.4 Long-term provisions

(In thousands of SIT)	31 Dec 2005	31 Dec 2004
B. Provisions	406,081	320,532
Provisions for general repairs of fixed assets	0	19,346
Risk provisions	345,505	204,343
Long-term provisions for received donations	60,576	96,843

In 2005 the Company fully utilized the provisions which had previously been established for general repairs of fixed assets.
The Company formed long-term provisions for damages in the amount of SIT 103,743 thousand relating to contingent liabilities for damages being claimed in courts and long-term provisions for the purchase of an insurance period in the amount of SIT 37,500 thousand.
The Company will offer elder employees the possibility to purchase an insurance period relating to military service and thus enable their premature retirement in the upcoming three years. 15 employees of Luka Koper, d.d. shall qualify for premature retirement based on the purchase of military service as at 31 December 2005, which will represent a cost of SIT 37,500 thousand.
Among long-term provisions, the parent company disclosed fixed assets acquired free of cost in the amount of SIT 60,576 thousand, which decrease annually by the calculated depreciation. This results in an increase of revenues from the utilisation and cancellation of long-term provisions.

7.2.5 Long-term financial and operating liabilities

7.2.5.1 Long-term financial liabilities

Long-term financial liabilities include long-term bank loans received. The average interest rate for loans denominated in Euro is EURIBOR + 0.60 % with maturities in January 2007 and March 2009, and for loans denominated in dollars is LIBOR + 0.7 % with maturities in March 2009 and June 2009.
We transferred a portion of a bank loan maturing in 2006 in the amount of SIT 137,112 thousand from long-term liabilities to short-term liabilities.

The Company holds no liabilities maturing beyond the five-year period.

(In thousands of SIT)	31 Dec 2005	31 Dec 2004
Long-term financial liabilities	7,939,185	3,557,223
Long-term loans received from domestic banks	7,939,185	3,557,223
Other long-term loans received from others	0	0

7.2.5.2 Long-term operating liabilities

Long-term operating liabilities include long-term collaterals received for rented business premises in the amount of SIT 11,450 thousand (SIT 20,460 thousand for 2004).

7.2.6 Short-term operating and financial liabilities

7.2.6.1 Short-term operating liabilities

(In thousands of SIT)	31 Dec 2005	31 Dec 2004
Short-term operating liabilities	2,969,733	4,220,721
Short-term operating liabilities to domestic suppliers	1,064,538	1,720,801
Short-term liabilities to foreign suppliers	171,545	226,039
Advances received	877	261,015
Liabilities for salaries accrued	180,681	208,871
Liabilities for net salaries	132,331	120,234
Liabilities for net salary compensations	33,971	22,766
Liabilities for salary contributions	58,690	51,173
Liabilities for taxes on salaries	44,541	35,739
Other short-term liabilities to employees	53,004	49,303
Liabilities for taxes from other receipts	6,470	83
Short-term liabilities to state and other institutions	13,562	2,648
Liabilities for tax on salaries paid	13,627	13,884
Corporate income tax	366,369	506,485
Other short-term liabilities to state and other institutions	58,213	44,303
Short-term liabilities associated with allocation of profit	19,619	18,136
Other short-term liabilities	751,695	939,241

Short-term advances did not decrease significantly in comparison to 2004 due to changed guidelines for their recording, but due to a one-time transaction in 2004 involving the sale of tangible fixed assets to the Municipality of Koper. Short-term operating liabilities also decreased by a liability for the use of building land due to a new decision and repaid liabilities to suppliers.

7.2.6.2 Short-term financial liabilities

Disclosed short-term financial liabilities in 2005 are significantly lower than short-term liabilities in 2004. A bank loan was no longer disclosed under short-term loans, as it was converted in its entirety into a long-term loan maturing in February 2007. Luka Koper, d.d. withdrew all its loan agreements with its subsidiaries due to the changed financing policy of the parent company. Consequently, subsidiaries placed their surplus cash in bank deposits.

(In thousands of SIT)	31 Dec 2005	31 Dec 2004
Short-term financial liabilities	264,673	5,208,572
Short-term loans received from domestic Group companies:		
- Luka Koper INPO, d.o.o.	6,269	861,445
- Luka Koper Pristan d.o.o.	4,153	176,807
- Adria-Tow, d.o.o. Koper	311	5,997
Short-term loans received from associated companies:		
- Adriafin d.o.o. Koper	116,504	248,355
Short-term loans received from others	324	6,517
Short-term loans received from banks	137,112	3,909,451

Debts to Group companies decreased in comparison to 2004, as the companies placed their surplus cash in bank deposits. A loan with Banka Koper was repaid in 2005.

7.2.7 Accrued expenses and deferred revenues

(In thousands of SIT)	31 Dec 2005	31 Dec 2004
D. Accrued expenses and deferred revenues	220,747	232,354
Demurrage	5,035	14,099
Foreign commercial discounts	54,187	67,311
Accrued expenses	156,248	150,944
Short-term deferred revenues	5,277	0

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

The contractual relationship with the Republic of Slovenia remains regulated by a lease agreement for operational shores and land owned by the Republic of Slovenia in the Port of Koper, which was concluded in 2000. In accordance with this agreement, lease costs amounted to SIT 224,459 thousand in 2005 and SIT 210,935 thousand in 2004 (SIT 20 per ton of handled goods, excluding handled oil derivatives). The Company allocated SIT 385 million for investments in port infrastructure in comparison with SIT 1,032 million in 2004.
Since a concession agreement for the management, development and regular maintenance of port infrastructure in the cargo Port of Koper has not yet been concluded, Luka Koper, d.d. still uses the operational shores and land owned by the Republic of Slovenia in the Port of Koper on the basis of the lease agreement from 2000.
We have established a port infrastructure department and thus adapted our internal organisation to the foreseen changes. The department manages port infrastructure assets that are owned by the joint stock company, and also provides for the regular maintenance of buildings intended for safe navigation, safe mooring and the undisturbed execution of port activities (buildings in the public domain owned by the State).
The established organisational structure and accounting system will enable the Company, on the basis of the concession agreement, to prepare financial statements and reporting in accordance with the provisions of SAS 35.

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

Port infrastructure	2005	2004
Revenues from services sold in the domestic market	122,797	132,986
Revenues from services sold in foreign markets	998,067	921,042
Revaluatory operating revenues	122,580	0
Operating revenues	1,243,444	1,054,028
II. Operating costs	1,426,462	1,200,437
Costs of materials	32,380	16,866
Costs of services	575,846	601,540
Allowances	544,845	537,249
Labour costs	41,681	44,347
Other costs	231,710	435
III. Operating result -loss	-183,018	-146,410

9. Distributable Profit of the Parent Company

In 2005, the parent company Luka Koper, d.d. realized a net profit of SIT 4,188,981 thousand. 50 % of the net profit from 2005 in the amount of SIT 2,094,490 thousand was allocated by the Management Board and the Supervisory Board to the increase of other reserves from profit. The remaining portion of the net profit for 2005 was allocated to distributable profit. The distributable profit has been further increased by the profit brought forward from 2004 in the amount of SIT 1,585,557 thousand SIT. In addition, a portion of other reserves from profit from previous years in the amount of SIT 2,308,196 thousand was also allocated to distributable profit.
The total distributable profit for the year 2005 thus amounts to SIT 5,988,244 thousand.

(In thousands of SIT)	2005	2004
Total distributable profit	5,988,244	5,786,653
Other reserves from profit	2,308,196	2,201,096
Net profit for the current year	2,094,491	2,090,796
Net profit brought forward (2004, 2003)	1,585,557	1,494,761

The General Meeting of Shareholders shall decide on the distribution of profit for the year 2005 in the amount of SIT 5,988,244 thousand 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 2,308,196 thousand shall be allocated to shareholders from other reserves from profit established on the basis of equity items from previous years;
- a portion of the distributable profit in the amount of SIT 2,000,000 thousand shall be allocated to other reserves from profit, namely, the net profit brought forward from 2004 in the amount of SIT 1,585,557 thousand and the net profit from 2005 in the amount of SIT 414,443 thousand;
- the allocation of the remaining portion of distributable profit (net profit for the financial year) in the amount of SIT 1,680,047 thousand shall be decided in upcoming business years.

On 7 July 2005 the General Meeting of Shareholders adopted resolutions concerning the proposal of the Management and Supervisory Boards for the allocation of distributable profit in the amount of SIT 5,786,653 for 2004.
Based on the resolutions of the General Meeting,
- a portion of the distributable profit in the amount of SIT 2,201,096 thousand (formed from other reserves from the years 1998 and 1999) was allocated to shareholders, of which:
    - SIT 173,768 thousand for fixed dividends pertaining to preference shares;
    - SIT 1,749,300 thousand for dividends pertaining to ordinary shares;
    - SIT 278,028 thousand for the variable part of dividends pertaining to preference shares.
- The gross dividend per common share amounted to SIT 245.00. Dividends were paid out to shareholders on 15 September 2005.
- A portion of the distributable profit in the amount of SIT 2,000,000 thousand was allocated to other revenue reserves according to the resolution adopted by the General Meeting of Shareholders; that is profit brought forward from 2003 in the amount of SIT 1,494,761 thousand and SIT 505,239 thousand of net profit from the financial year 2004.
- The General Meeting adopted a resolution specifying that the allocation of the remaining portion of distributable profit (the net profit from 2004) in the amount of SIT 1,585,557 thousand would be decided in upcoming business years.

10. Business Cooperation with Subsidiary Companies

Parent company's relations with subsidiary companies and relations between subsidiary companies (In thousands of SIT)	31 Dec 2005	31 Dec 2004
Long-term investments	1,650,344	1,370,610
Receivables	86,088	64,651
Short-term account receivables	86,088	64,651
Short-term receivables from interest	0	0
Short-term investments	10,734	1,046,961
Liabilities	96,822	1,111,612
Short-term operating liabilities	86,088	64,651
Short-term financial liabilities	10,734	1,046,961
Revenues	744,873	530,771
Operating revenues	712,050	488,893
Financing revenues	32,823	41,878
Costs and expenses	744,873	530,771
Costs of material	24,378	19,718
Costs of services	614,110	452,774
Labour costs	11,557	13,543
Other costs	62,005	2,858
Financing expenses	32,823	41,878

11. Post-balance Sheet Events

1. Investment in a new wheel loader (20 tons) valued at SIT 130 million was approved in January 2006. This new asset will be used to replace the existing worn-out asset.
2. The Municipality of Koper sold its 3.3 % stake (461,538 shares) in Luka Koper to the Slovenian Restitution Fund (SOD) in February 2006. Consequently, the ownership structure of Luka Koper has changed and the Municipality of Koper now holds 3.33 % ownership stake and the Slovenian Restitution Fund holds an 11.13 % ownership stake in Luka Koper, d.d..
3. The Company extended a guarantee in January 2006 in the amount of SIT 500 million for the purpose of extending a long-term credit facility granted by Banka Koper.
4. Likewise, the Company provided a guarantee for a loan raised by the associated company Adria-Tow, d.o.o. in the amount of SIT 407 million.

12. Statement of Responsibility of the Management

The Management of Luka Koper d.d. hereby fully confirms the financial statements disclosed in this Annual Report and the accompanying notes presented on pages 78 to 101.

Koper, 16 February 2006

Robert Časar
Chairman of the Management Board

13. Transition to International Standards of Financial Reporting

EU regulations have introduced uniform rules for the compilation of financial statements of certain companies, and instruct corporate entities from EU 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.
As a company listed on the Ljubljana Stock Exchange, Luka Koper, d.d. is responsible for the preparation of consolidated financial statements. Therefore, the Company prepared, this year for the first time, its consolidated financial statements according to international accounting standards. The financial report presented below has been prepared with all the required notes and disclosures regarding the transition, taking into consideration the adopted guidelines of individual categories.

Robert Časar
Chairman of the Management Board

Marjan Babič
Deputy Chairman of the Management Board

Neda Ritoša
Head of Accounting Department


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A commercial port provides jobs.

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Financial Statements for the year 2005 of the Luka Koper Group

Auditor's Report

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AUDITORS' REPORT

to the owners of
Luka Koper, d.d.

We have audited the accompanying consolidated balance sheet of the Luka Koper Group as of 31 December 2005 and the related statements of income, cash flows and changes in equity as well as notes to the consolidated financial statements for the year then ended. We also reviewed the Business Report prepared by the Management. The Management of the company Luka Koper, d.d. is responsible for the preparation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 the significant estimates made by the Management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements with the notes referred to in the first paragraph give a true and fair view of the financial position of the Luka Koper Group as of 31 December 2005 and the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The Business Report is consistent with the audited consolidated financial statements.

Without qualifying our opinion, we draw your attention to Item 10 of the Consolidated Financial Report, under which it is explained that the concession agreement for managing, operating, developing and regularly maintaining the port infrastructure at the freight port of Koper has not yet been concluded. Until the concession agreement has been concluded, the contractual relationship between the company and the Republic of Slovenia remains governed by the lease agreement for operative quays and land owned by the Republic of Slovenia in the port of Koper from 2000.

Deloitte & Touche revizija, d.o.o.

Blanka Vezjak, MSc
Certified Auditor
Member of the Board

Ljubljana, 17 February 2006

Deloitte & Touche
revizija d.o.o.

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Deloitte Touche Tohmatsu

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 Financial Reporting Standards (hereinafter: IFRS) as of 2005.

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

The Company performed different activities throughout the year 2004 in order to ensure the timely execution of necessary changes and adjustments. We participated in seminars on IFRS, regularly reviewed all notices sent by the Slovene Institute of Auditors 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 and prepared the basis for recording business events according to IFRS.

The fundamental characteristics of initial reporting according to IFRS were considered in the preparation of reporting basis. IFRS 1 precisely defines the steps to be used in the transition to IFRS as the basis of financial reporting, when to apply them, how to measure economic categories, and which accounting terms with notes are to be included in the initial reporting package.

The fundamental characteristic of IFRS 1 is the requirement that all provisions of IFRS which apply for the periods ending on the date of reporting, on the date when a balance sheet is compiled, and when comparable financial statements according to IFRS and complete financial statements according to IFRS are prepared should be considered. At the same time, IFRS 1 allows for certain exceptions, which were applied in the case of the Luka Koper Group.

The exceptions mostly relate to the measurement of economic categories being of a long-term nature for which the expenses relating to the consistent application of IFRS for past periods would exceed the benefits for users. At the same time, they do not reduce the quality of information displayed in the financial statements prepared in such manner.

The financial statements have been prepared so as to present a fair view of the financial condition, financial performance and cash flows of the Company. The accounting and reporting requirements of the International Financial Reporting Standards and the Commercial Companies Act, as well as the internal regulations of companies within this group, were applied in the preparation of these financial statements.

1. Consolidated Income Statement

(In thousands of SIT)	Notes	Luka Koper Group 2005	Luka Koper Group 2004
Operating revenues	8.1.1	22,192,886	18,127,305
Revenues from services sold - domestic market		2,836,369	2,480,326
Revenues from services sold - foreign market		17,651,029	14,722,813
Revenues from sales of goods and materials - domestic market		3,572	4,065
Revenues from use and cancellation of provisions		36,317	36,339
Revenues from rents		708,059	578,677
Other revenues related to products and services		335,454	173,842
Other operating revenues		0	122,369
Revaluatory operating revenues		622,086	8,650
Capitalised own products		0	224
Operating costs	8.1.2	17,799,903	16,487,439
Cost of goods and materials sold		2,401	3,461
Costs of materials		1,183,270	972,946
Costs of services		6,246,531	5,463,871
Depreciation		3,429,237	3,268,177
Long-term provisions		0	116,300
Labour costs		5,689,439	5,437,576
Other costs		1,249,025	1,111,743
Costs of other services		0	113,365
Operating profit (loss)		4,392,983	1,639,866
Financial revenues	8.1.3	2,259,335	5,343,581
Interest revenues		480,316	649,038
Financial revenues from associated companies		239,279	881,115
Revenues from dividends and other interests in profits		838,152	768,806
Revenues from revaluation of receivables due to value maintenance		251,749	354,015
Revenues from long-term loans		0	3,239
Decrease of long-term provisions		0	103,060
Revenues from sale of financial investments		353,951	2,513,322
Other financial revenues		16,399	26,691
Revaluatory financial revenues from strengthening		79,489	44,295
Financial expenses	8.1.4	830,402	870,952
Interest expense		237,593	390,882
Expenses from revaluation of debts due to value maintenance		295,599	251,627
Other financial expenses		2,540	21,365
Revaluatory financial expenses from impairment		294,670	207,078
Profit before taxes		5,821,916	6,112,495
Corporate income tax	8.1.5	1,079,005	703,338
Deferred tax	8.1.6	72,176	-9,533
Net profit for the year	8.1.7	4,815,087	5,399,624
Net profit of minority interests		72,177	95,462
Net profit of majority shareholders		4,742,482	5,304,162
Basic net profit per share	8.1.8	600.94	679.60
Diluted net profit per share	8.1.8	338.75	378.87

2. Consolidated Balance Sheet

	(In thousands of SIT)	Notes	Luka Koper Group 31 Dec 2005	Luka Koper Group 31 Dec 2004
	Assets		**79,351,132**	**77,025,208**
A.	Non-current assets		63,925,858	63,499,981
I.	**Intangible long-term assets**	**8.2.1**	**261,983**	**506,928**
3.	Long-term property rights		261,983	506,928
II.	**Tangible fixed assets**	**8. 2.2**	**37,375,810**	**36,857,001**
1.	Land and buildings		29,329,840	27,861,460
a.	Land		425,739	425,739
b.	Buildings		28,904,101	27,435,721
2.	Equipment and machinery		7,266,372	6,249,505
3.	Other equipment and machinery		13,142	13,993
4.	Fixed assets in acquisition		766,456	2,732,043
III.	**Long-term investments**	**8.2.3**	**26,288,065**	**26,136,052**
1.	Investments in shares of Group companies		0	0
2.	Investments in shares of associated companies	8.2.3.1	13,814,975	12,790,111
3.	Other long-term investments	8.2.3.2	10,387,243	10,775,870
4.	Other long-term financial receivables	8.2.3.3	2,085,847	2,570,071
IV.	**Long-term operating receivables**	**8.2.4**	**0**	**0**
B.	Current assets		15,406,446	13,498,040
I.	**Inventories**	**8.2.5**	**995**	**1,610**
1.	Material		341	642
2.	Inventories of material		653	968
b.	Short-term operating receivables	8.2.6	4,486,393	4,833,736
1.	Short-term trade receivables		3,663,701	4,833,736
2.	Short-term operating receivables from Group companies		0	0
3.	Short-term operating receivables from associated companies		0	0
4.	Short-term operating receivables from others		822,692	0
III.	**Short-term investments**	**8.2.7**	**10,556,785**	**8,398,387**
1.	Short-term investments of Group companies		0	0
2.	Short-term investments in associated companies		0	0
3.	Short-term investments in others		10,556,785	8,398,387
IV.	**Cash balance**		**362,274**	**264,307**
C.	Deferred expenses and accrued revenues	8.2.8	18,827	27,187
D.	Off-balance sheet assets	8.2.9	2,236,151	4,198,384

	(In thousands of SIT)	Notes	Luka Koper Group 31 Dec 2005	Luka Koper Group 31 Dec 2004
	Equity and liabilities	**Notes**	**79,351,132**	**77,025,208**
A.	Equity	8.2.10	64,927,326	61,890,529
	Equity - majority equity interests		64,647,429	61,683,109
I.	**Called-up capital**		**14,000,000**	**14,000,000**
1.	Share capital		14,000,000	14,000,000
II.	**Capital surplus**		**21,462,806**	**21,462,806**
III.	**Reserves from profit**		**22,190,639**	**20,296,585**
1.	Legal reserves		4,519,621	4,518,961
3.	Other reserves from profit		17,671,018	15,777,624
IV.	**Net profit or loss from previous years**		**2,521,152**	**1,326,258**
V.	**Net profit or loss for the current year**		**2,647,992**	**3,195,553**
VII.	**Revaluation surplus**		**1,824,840**	**1,401,907**
1.	Revaluation surplus		1,824,840	1,401,907
II.	**Equity - minority equity interests**		**279,897**	**207,420**
B.	Provisions	8.2.11	1,942,502	1,762,080
1.	Provisions for pensions and similar items		391,777	451,385
2.	Other provisions		345,505	204,368
3.	Long-term accrued expenses and deferred revenues		1,205,220	1,106,327
C.	Financial and operating liabilities	8.2.12	12,255,234	13,140,244
a.	**Long-term financial liabilities**	**8.2.12.1**	**8,253,187**	**3,944,349**
1.	Long-term financial liabilities to banks		8,253,187	3,944,349
b.	**Long-term operating liabilities**	**8.2.12.2**	**443,803**	**384,271**
1.	Long-term operating liabilities		15,484	24,753
2.	Deferred liabilities for deferred taxes		428,319	359,518
c.	**Short-term financial liabilities**	**8.2.12.3**	**368,122**	**4,280,366**
1.	Short-term financial liabilities to banks		251,295	4,028,206
2.	Short-term financial liabilities to Group companies		0	0
3.	Short-term financial liabilities to associated companies		116,504	248,355
4.	Short-term financial liabilities to others		323	3,805
d.	**Short-term operating liabilities**	**8.2.12.4**	**3,190,122**	**4,531,258**
1.	Short-term operating liabilities for advances		2,853	262,958
2.	Short-term operating liabilities to suppliers		1,278,599	2,156,727
4.	Short-term operating liabilities to Group companies		0	0
5.	Short-term operating liabilities to associated companies		0	0
6.	Short-term operating liabilities to others		829,665	1,408,235
7.	Liabilities for income taxes		1,079,005	703,338
D.	Accrued expenses and deferred revenues	8.2.13	226,070	232,355
E.	Off-balance sheet liabilities	8.2.14	2,236,151	4,198,384

3. Consolidated Cash Flow Statement

	(In thousands of SIT)	Notes	Luka Koper Group 2005	Luka Koper Group 2004
A.	**Funds flows from operating activities**	**8.3.1**		
a)	Income statement items		6,360,507	3,878,428
	Operating revenues (excluding revaluation) and financial revenues from operating receivables		21,565,236	17,728,301
	Operating expenses without depreciation (excluding revaluation) and financial expenses from operating liabilities		-14,197,899	-13,107,927
	Income taxes and other taxes, not included in operating expenses		-1,006,829	-741,946
b)	Changes in net operating current assets (and accrued and deferred cost/revenue items, provisions and deferred receivables and income liabilities) of the operating balance sheet items		-898,551	741,876
	Opening less closing operating receivables		434,793	-379,234
	Opening less closing deferred expenses/accrued revenues		8,360	-10,628
	Opening less closing inventories		615	-7,927
	Closing less opening operating liabilities		-1,516,456	1,067,756
	Closing less opening accrued expenses/deferred revenues and provisions		174,137	56,055
c)	Net cash flows from operating activities (a + b)		5,461,956	4,620,304
B.	**Cash flows from investing activities**	**8.3.2**		
a)	Inflows from investing activities		2,129,597	7,158,179
	Inflows from interest received and shares in profits of others, which relate to investing activities		1,431,131	4,459,227
	Inflows from disposal of intangible assets		17,341	0
	Inflows from disposal of long-term investments		681,125	2,698,952
b)	Outflows from investing activities		5,215,437	9,998,314
	Outflows for acquisitions of intangible assets		0	182,900
	Outflows for acquisitions of tangible fixed assets		3,057,039	6,405,536
	Outflows for acquisition of short-term investments		2,158,398	3,409,878
c)	Net cash flows from investing activities (a + b)		-3,085,839	-2,840,135
C.	**Cash flows from financing activities**	**8.3.3**		
a)	Inflows from financing activities		4,308,838	2,653,587
	Inflows from increase of long-term financial liabilities		4,308,838	2,653,587
b)	Outflows from financing activities		6,586,987	4,347,955
	Outflows for paid interest related to financing		473,647	412,247
	Outflows for repayments of short-term financial liabilities		3,912,244	1,734,612
	Outflows for dividend payments and other shares in profits		2,201,096	2,201,096
c)	Net cash flows from financing activities (a + b)		-2,278,149	-1,694,368
D.	**Closing balance of cash and cash equivalents**	**8.3.4**	**362,274**	**264,307**
x)	Net funds flow for the period (sum of surpluses Ac, Bc and Cc)		97,967	85,801
y)	Opening balance of cash and cash equivalents		264,307	178,506

4. Consolidated Statement of Changes in Equity

Statement of Changes in Equity - Majority Owner from 1st January to 31 December 2005 (In thousands of SIT)	Notes	Share capital	Capital surplus	Legal reserves	Other reserves from profit	Net profit from previous years	Net profit for the year	Revaluation surplus	Total equity
Balance as at 1st January 2005		**14,000,000**	**21,462,806**	**4,518,961**	**15,777,624**	**1,326,258**	**3,195,553**	**1,401,907**	**61,683,109**
Transfers to equity	8.4.1	0	0	0	0	1,075,499	4,742,482	422,933	6,241,574
Net profit or loss for the year							4,742,482		4,742,482
Entry of revaluation surplus								422,933	422,933
Transfers within equity	8.4.2	0	0	660	4,094,490	1,194,894	-5,290,043	0	0
Allocation of net profit by resolution of the Management and Supervisory Boards				660	2,094,490		-2,095,150		0
Allocation of net profit to additional reserves by resolution of the General Meeting					2,000,000	90,797	-2,090,797		0
Other allocation of equity items						1,104,097	-1,104,097		0
Transfers from equity	8.4.3	0	0	0	-2,201,096	0	0	0	-2,201,096
Dividend distribution					-2,201,096				-2,201,096
Balance as at 31 December 2005		**14,000,000**	**21,462,806**	**4,519,621**	**17,671,018**	**2,521,152**	**2,647,992**	**1,824,840**	**64,647,429**
Equity - minority shareholders									
Balance as at 31 December 2005		**11,933**	**189**	**1,193**	**92,531**	**95,488**	**72,605**	**5,958**	**279,897**
Total equity									
Balance as at 31 December 2005		**14,011,933**	**21,462,995**	**4,520,814**	**17,763,549**	**2,616,640**	**2,720,597**	**1,830,798**	**64,927,326**
Net profit and revenues and expenses directly allocated to equity							4,742,482	422,933	5,165,415

Statement of Changes in Equity - Majority Owner from 1st January to 31 December 2004 (In thousands of SIT)	Share capital	Capital surplus	Legal reserves	Other reserves from profit	Net profit from previous years	Net profit for the year	Revaluation surplus	Total equity
Balance as at 1st January 2004	**14,000,000**	**21,462,806**	**4,501,149**	**14,087,923**	**1,183,534**	**1,942,724**	**1,578,155**	**58,756,291**
Transfers to equity	0	0	0	0	0	5,304,163	0	5,304,163
Net profit or loss for the year						5,304,163		5,304,163
Transfers within equity	0	0	17,812	3,890,796	142,724	-4,051,334	0	-176,250
Allocation of net profit by resolution of the Management and Supervisory Boards			847	2,090,796		-2,091,643		0
Allocation of net profit to additional reserves by resolution of the General Meeting			16,965	1,800,000	-1,352,036	-447,964	0	16,965
Other allocation of equity items					1,494,760	-1,511,727	0	-193,215
Transfers from equity	0	0	0	-2,201,095	0	0	0	-2,201,095
Dividend distribution				-2,201,095				-2,201,095
Transfer of revaluation surplus							-176,248	-176,248
Balance as at 31 December 2004	**14,000,000**	**21,462,806**	**4,518,961**	**15,777,624**	**1,326,258**	**3,195,553**	**1,401,907**	**61,683,109**
Equity - minority shareholders								
Balance as at 31 December 2004	**12,968**	**188**	**1,193**	**48,914**	**42,687**	**95,462**	**6,008**	**207,420**
Total equity								
Balance as at 31 December 2004	**14,012,968**	**21,462,994**	**4,520,154**	**15,826,538**	**1,368,945**	**3,291,015**	**1,407,915**	**61,890,529**
Net profit and revenues and expenses directly allocated to equity						5,304,163	-176,248	5,127,915

5. Financial Statements with Notes

The consolidated financial statements of the Luka Koper Group include the financial statements of the parent company Luka Koper d.d. and its subsidiary companies, and the corresponding profits or losses of associated companies.

Subsidiary companies	Shares (in %)	Share Capital (in thousands of SIT)
Luka Koper Pristan d.o.o.	100	454,057
Luka Koper INPO, d.o.o.	100	57,724
Adria-Tow, d.o.o.	50	23,866
Luka Kopar Beograd d.o.o.	90	10,483

Note: Luka Kopar Beograd, in which Luka Koper, d.d. holds a 90% ownership share, was not consolidated, as the company was not operating and does not materially affect the Group's financial statements.

Luka Koper d.d. also invested in the following associated companies in which it has a significant influence, and which are disclosed in the financial statements of the Group according to the equity method, so that they increase or decrease the operating result by the amount of profit or loss belonging to it, that is:

Associated companies Financial Statements as at 31 Dec 2005 (In thousands of SIT)	Share (%)	Value of investment	Amount of revenues	Amount of assets	Amount of financial and operating liabilities	Net operating result
Intereuropa d.d. Koper	24.55	11,362,366	30,660,651	46,336,134	8,403,305	2,472,823
Avtoservis Koper d.o.o.	49	33,972	774,501	555,982	277,851	75,240
Adriafin d.o.o. Koper	39.44	1,034,303	400,784	5,454,748	1,096	103,411
Actual I.T., d.o.o. Koper	26	143,000	2,213,651	1,280,261	1,813	8,088
* Kopinvest Netherlands BV	25	68,467	0	0	0	0
Golf Istra d.o.o. Koper	20	28,200	958	58,787	15,568	-40,578
* Adria Transport d.o.o. Koper	50	12,000	0	0	0	0

* Adria Transport, in which Luka Koper, d.d. holds a 50% ownership share, was established in May 2005, but is not yet operational. We did not receive any data for 2005 for the company Kopinvest Netherlands BV, in which Luka Koper, d.d. holds a 25% ownership share; its results will be disclosed during semi-annual reporting.

6. Accounting Policies and Disclosures

The complete consolidated accounting statements relating to the Luka Koper Group for the 2005 reporting period comprise:

- the Income Statement
- the Balance Sheet
- the Cash Flow Statement
- the Statement of Changes in Equity, and
- Notes, which include the presentation of all material accounting policies and other explanatory materials.

The consolidated financial statements for the period ended 31 December 2005 were prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union.

The individual financial statements of all Group companies were summed up and then the consolidation procedures performed. The financial statements of the Group companies were compiled as per the same date, except for the company Kopinvest Netherlands BV, whose financial statements for 2005 have not yet been received. The size of invested capital in this company does not have a material affect on the disclosed statements of the Group.

The uniform accounting policies for similar transactions and other events occurring in similar circumstances have been considered. The statements have been prepared on a going concern basis. The Group is considered a going concern. The Company prepared its financial statements according to the principle of the occurrence of a business event, giving due consideration to their systematic representation.

Luka Koper, d.d. is a large company whose securities are traded on the organized stock exchange and is thus also the subject of an audit on the group level. We disclose individual categories in accordance with International Financial Reporting Standards, which prescribe the disclosures. The applied accounting policies and the nature of individual disclosures are prescribed in the internal acts of the Company. Comparative data from the previous period are disclosed with all material amounts contained in the financial statements, and subsequently included in verbal and descriptive information.

6.1 Balance Sheet

Tangible fixed assets

Tangible fixed assets are disclosed at cost in accordance with IAS 16. According to the value-at-cost model, an asset is disclosed according to its procurement value and reduced by accumulated depreciation and impairments.

The cost of a tangible fixed asset represents the equivalent of its monetary price on the day of recognition. If a payment is deferred for a period that is longer than the usual credit period, the difference between the equivalent expressed as a monetary price and the total payment is recognized as interest during the credit period and not as an increase in the carrying value of such asset.

The cost of a tangible fixed asset owned by a lessee within the framework of a financial lease is determined in accordance with IAS 17 - Leases. A financial lease is, upon commencement of a lease, recognized as an asset and debt in amounts equal to the fair value of the leased asset, or, if such value is lower, to the present value of the lowest sum of lease payments, whereas both values are determined upon conclusion of the lease arrangement. The discount rate, which is applied in the calculation of present value of the lowest sum of lease payments, is equal to the interest rate related to the lease, if such interest rate can be determined. Otherwise, the presumed interest rate payable by the lessee for borrowing is applied. All start-up direct costs borne by the lessee are added to the amount recognized as an asset.

Revaluation

We evaluate the recoverable value of an asset, if there are any indications that such asset might be impaired. If the recoverable value of an asset cannot be appraised, the Company determines the value of the cash-generating unit to which such asset belongs.

Depreciation

The depreciation amount is recognized in the income statement in each period. Depreciation begins when an asset becomes available for use. The person responsible for purchases of the Company's fixed assets defines the useful life of a fixed asset together with the user and bookkeeper of fixed assets at the time of its purchase.

Depreciation method

The Company uses the straight-line depreciation method, which is characterised by constant depreciation amounts throughout the useful life of a fixed asset. The applied depreciation method is verified at the end of each financial year. As a rule, the remaining value of an asset is recognized only in relation to more material items, when also costs of liquidation of a tangible fixed asset are considered.

Reversal of recognition

Recognition of the carrying value of an individual tangible fixed asset is reversed:
- upon its disposal, or
- if no future economic benefits are expected from its use or disposal.

Intangible assets

An intangible asset is initially recognized at cost.
Intangible assets are disclosed after initial recognition according to their cost, reduced by allowance for depreciation and loss from impairment.

Depreciation

Depreciation begins when an asset becomes available for use; that is when it is positioned and in the condition required for it to operate in the manner intended by the management.
The carrying amount of an intangible asset is decreased by applying the linear depreciation method during its useful life.

The depreciation period and depreciation method for an intangible asset with a final useful life is reviewed at least at the end of each financial year. The depreciation period is changed, if the useful life of the asset differs from previous estimates.
The useful life of an intangible asset derived from contractual or other legal rights does not exceed the period of such contractual or other legal rights, but it can be shorter, depending on the period in which the Company expects to use such assets.

Impairments of fixed assets

Intangible assets are examined as per reporting date with respect to the intention of their impairment. If the recoverable value is less than the carrying value of an asset, then it is reduced by its recoverable value. Such decrease is disclosed by the Company as a loss due to impairment and recorded under revaluatory operating expenses.

Inventories

Inventories are recorded as assets in the form of materials used for the performance of services and as assets intended for sale. The initial measurement of inventories is performed on the basis of cost, which comprises purchase price, customs duty and other duties (except those to be recovered by the Company from the tax authorities), transport costs, loading costs, and other costs directly attributable to acquired commercial goods, materials or services. Trade discounts, other rebates and similar items are subtracted in the process of determining the cost.

The value of inventories is considered based on the weighted average price method. When inventories are sold, their carrying value is recognized as expense for the period in which revenue was recognized. The amount of expenses is disclosed in the notes to the income statement, whereas the carrying value of inventories is disclosed in the balance sheet as per the balance sheet date.
We also disclose potential write-offs of inventories and whether inventories have been pledged as a security for any liabilities.

Operating receivables

Long-term and short-term trade receivables, receivables from the State and employees are kept separately in our accounting records. Interest receivables from the previously mentioned receivables are also disclosed under operating receivables. Long-term and short-term operating receivables are initially recognized in amounts derived from related agreements or relevant bookkeeping documents. Operating receivables in foreign currencies are converted into domestic currency using the middle exchange rate of the Bank of Slovenia applicable on the last day of the business year.
Interest calculated on operating receivables increases the financial revenues.
The appropriateness of the disclosed amount of a single receivable is assessed at the end of the accounting period on the basis of substantiated evidence concerning the collectability of such receivables. We make allowances for each doubtful or bad receivable or write them off entirely. The amount of allowances made in the current year is charged against revaluatory operating expenses for the entire amount of such receivables. The records of these individual allowances for receivables are disclosed separately due to temporary differences in deferred taxes.

Cash and cash equivalents, deferred expenses and accrued revenues

Cash and cash equivalents include balances on tolar and foreign currency bank accounts. Balances of cash in foreign currencies are converted into local currency according to the middle exchange rate of the Bank of Slovenia applicable on the last day of the financial year.
Deferred expenses and accrued revenues include paid-up subscription fees, rent and insurance premiums paid, which will be recognized in the income statement in the upcoming financial year. Such expenditures are not recognized as an expense in the current financial year.

Investments

Investments in associated companies

Investments in associated companies are recognized according to the equity method in consolidated financial statements. According to the equity method, an investment is initially recognized at cost. Afterwards, the investment is recalculated applying the after-purchase change of the investor's share in the net worth of the company in which it invests.

Impairments of investments in associated and other companies operating as joint stock companies are performed using the dividend discount model. The discount rate is determined using the CAPM model.

Financial instruments: IAS 32, IAS 39

The following four groups of investments have been established in accordance with IAS 39:
Group 1: Investments held for trading purposes (at fair value through profit or loss)
Group 2: Investments held to maturity
Group 3: Loans and receivables
Group 4: Available for sale financial assets (at fair value through equity)

Investments in non-marketable securities or shares are classified in a special (fifth) group and measured according to their cost.
The Company (Finance department) decides on the classification of an individual investment upon its recognition in accordance with the purpose of its acquisition.

Initial recognition and reversal of recognition

The trading date is consistently applied for investments classified in groups 1 and 4, whereas the settlement date is applied for other groups of investments.

The recognition of an investment is reversed when the contractual rights to cash flows from the underlying investment expire.

Measurement

An investment is initially measured according to its fair value.
To this fair value, the Company adds transaction costs directly related to the acquisition of the investment in the case of investments measured according to amortised cost, investments measured according to fair value through equity adjustment, and investments measured at cost.

The valuation of an investment depends on the group in which it is classified:
- Investments classified in groups 1 and 4 are valued according to their fair value.
  Fair value is a market determined value (uniform stock price, published daily net asset value of a mutual fund unit, uniform bond price, etc., ...).
- Investments classified in groups 2 and 3 are valued according to their amortised cost.
  Amortised cost is the amount used to measure an investment upon its initial recognition, decreased by any principal repayments, increased or decreased by amortisation of a discount or premium (according to effective interest method), and reduced by potential impairments.
- Investments classified in the special (fifth) group are measured according to their cost.

When the effective interest method is used, effective interest rate is calculated, in case of an investment with a variable interest rate (TOM, Euribor, etc.), from the date of recognition until maturity of the investment. The interest rate obtained in this way is used to calculate the discount or premium amortisation until maturity of the investment or first coupon payment, when the interest rate is transposed to market rates and the procedure for the calculation of effective interest rate is repeated and a new discount rate used to calculate the discount or premium amortisation until maturity or next coupon payment. In this manner, the amount of discount or premium is amortised until final maturity of the investment.

Impairments

On each reporting date, the Company evaluates whether there is impartial evidence supporting the potential impairment of an investment. If such reasons exist, the Company is obliged to evaluate and determine the amount of a loss resulting from impairment.
If the Company determines that it is necessary to perform an impairment of investments disclosed at their settlement values, the amount of loss is measured as the difference between the carrying value of the investment and the present value of expected future cash flows, discounted according to the originally applicable interest rate. The loss amount is recognized through operating result. If the reasons for the impairment of such an investment cease to exist, the reversal of the impairment of the investment, disclosed at amortised cost, is recognized through profit or loss.

Equity

Equity represents a liability to owners that does not mature for payment until liquidation 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 preference and ordinary shares in the parent company and equity interests in subsidiary companies.
Other reserves from profit represent non-nominated capital, and have been increased annually through the allocation of net profit. The Company discloses equity items and their movements in the Statement of Changes in Equity.

Financial liabilities

Financial liabilities (raised loans) are recorded according to their original (contractual) value. In accordance with historical data and calculations of applicable interest rate, we have come to the conclusion that the costs of raising and keeping financial liabilities have a negligible effect on the applicable interest rate (especially due to high loan amounts), and are therefore not calculated by the Company. Financial liabilities are recorded in accordance with contractual interest rates, whereas costs related to financial liabilities are recorded in the period of their occurrence.

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 strengthened 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.
Liabilities to suppliers, the State and employees are disclosed separately. Operating liabilities also include interest liabilities and liabilities for participation in profit distribution. Operating liabilities expressed in foreign currencies are converted into domestic currency according to the middle exchange rate of the Bank of Slovenia applicable on the last day of the financial year.
Short-term debts are disclosed for the following groups: members of the Management Board, members of the Supervisory Board, and internal shareholders.

Accrued expenses and deferred revenues

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 liabilities undertaken.

Corporate income tax

Corporate income tax is calculated in accordance with the Corporate Income Tax Act at a rate of 25%. The basis for the calculation of corporate income tax is gross profit increased by non-deductible costs and decreased by legally allowed tax reliefs. The corporate income tax liability is then calculated from such taxable base.

Deferred taxes

Deferred taxes are directly linked to the accounting principle of matching revenues with expenses, which stipulates that appropriate revenues are matched to corresponding expenses with the intention of disclosing an appropriate operating result for the relevant reporting period. Deferred taxes appear as deferred tax receivables or deferred tax liabilities. The balance sheet liability method was applied in the calculation of deferred taxes. The carrying value of assets and liabilities was compared with their tax values and the difference was then defined as permanent or temporary. Temporary differences were classified as taxable and deductible. Taxable temporary differences later increase taxable amounts and deferred tax liabilities. Deductible temporary differences later decrease taxable amounts and increase deferred tax receivables.

6.2 Income Statement

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

Recording of state subsidies and disclosure of state aid

The assigned assets of others used for the acquisition of fixed assets are recorded as deferred revenue (long-term accrued costs and deferred revenues item) which the Company consistently recognizes as revenue during the employable life of the asset concerned (20.26).

Employee benefits

Other long-term benefits include jubilee rewards and retirement compensations. The simplified calculation method is applied for measuring these benefits, which requires the valuation of actuary liability in accordance with the anticipated growth of salaries from the date of evaluation until the foreseen retirement of an employee. This requires the accrual of remuneration in proportion to work performed. A liability is recognized in the amount of the present value of expected future expenditures. Fluctuation and increase of salaries in real terms are also evaluated in this measurement.

Actuary calculations will be performed every two years as a basis for determining the amount of provisions.

Costs of borrowing

The costs of borrowing comprise interest and other costs incurred by the Company in relation to the borrowing of financial assets. The Company recognizes the costs of borrowing as expenses for the period in which they occur, regardless of how a loan is utilized.

6.3 Cash-flow Statement

The Group reports on funds flows from operating activities using the indirect method, according to which net profit or loss is adjusted by effects of transactions of a non-cash nature, all deferred revenues or costs or accrued costs that will give rise to cash outflows and receipts in future operations, and by revenue and expense items related to funds flows from investing activities.

6.4 Statement of Changes in Equity

Luka Koper Group presents changes in equity in the statement of changes in equity and in the notes to the financial statements.

6.5 Accounting Policies, Changes in Accounting Estimates and Errors

Estimates

In accordance with IFRS 1.34, we adopted the estimates in accordance with previous accounting rules:
the estimate of allowances for receivables is formed on the basis of experience from previous years and expectations for the financial period. Allowances for receivables are recorded during the year in a certain percentage of planned realisation by debiting revaluatory operating expenses and crediting the applicable allowance for receivables during the financial period.

The adequacy of a disclosed amount of individual receivable is verified at least once a year (prior to the compilation of the annual statement of accounts), with relevant documents of proof serving as a basis for recording allowances for receivables. A resolution of the Management Board of Luka Koper and a recommendation of a director of a subsidiary company are the relevant documents of proof serving as a basis for recording allowances for receivables.

6.6 Reporting Segment

Luka Koper has no defined business or geographical segments. None of the services performed within the Group differ significantly according to risks and returns. The subsidiary companies Luka Koper Pristan d.o.o., which performs catering activities, Luka Koper INPO, d.o.o., which performs other construction activities and auxiliary works in maritime traffic, and Adria-Tow, d.o.o., which performs ship-towing activities, do not contribute 10% of the Group's value, neither in terms of revenues nor assets nor net profit.

6.7 Estimates and Sources of Uncertainties

Based on the considered assumptions regarding the future operations of the Group, the Management has assessed that no uncertainties which could cause material changes exist for 2006. In the process of using accounting policies described in the notes, the Management assessed that one of the material accounting policies is classification of financial investments in groups. In this report we disclose how the chosen policies influence and will influence the future operations of the Group.

7. Disclosure of Effects of the Transition to International Standards of Financial Reporting

7.1 Opening Balance Sheet as per 1st January 2004

The basis for the preparation of initial reporting according to IFRS is the compilation of the opening balance sheet as per the date of transition to IFRS, that is 1st January 2004. Although its announcement is not necessary, it represents a basis for further reporting. This means that all business events relating to the economic categories disclosed in the opening balance sheet had to be considered under IFRS. On the basis thereof, relevant recognitions, reversals of recognitions, reclassifications, and/or other measurements of economic categories had to be performed.
The differences derived from the adjustments of items in the opening balance sheet were recognized under retained earnings or other applicable equity item.
The standard requires that a company applies the same accounting policies in its opening balance sheet and for all periods covered by initial reporting. These accounting policies have to be in compliance with each IFRS (except for the offered exceptions) applicable for the period for which a company performs initial reporting according to IFRS. The accounting policies applied by a company in its opening balance sheet in accordance with IFRS may differ from the policies applied as per the same date using previously applicable accounting rules.
In compiling the opening balance sheet, the standard provides companies with two options:
- consistent retrospective application of all IFRS provisions, except for compulsory exceptions, which were considered, or
- consideration of certain exceptions from the retrospective use of IFRS. IFRS 1 offers 12 possible exceptions in different areas of disclosure of economic categories.

The Luka Koper Group has considered certain exceptions from the retrospective use of IFRS, namely:

Consideration of previously contextually defined financial instruments

In accordance with IFRS 1.25 A, the Company applied an exception enabling it to define the purpose of financial instruments and use the prescribed valuation model (disclosure according to fair value or procurement value) as at the day of transfer to IFRS.

Fair value or revaluation as deemed cost

In order to mitigate the transition to IFRS, we applied the exception under IFRS 1.17, which permits companies to use the revaluated value (revaluation of fixed assets) in accordance with former national accounting standards (for immovables, devices and equipment on or before the date of transition to IFRS) as the initial cost of tangible fixed assets as at the date of transition, instead of their retrospective use.
The revaluatory value is considered a procurement value as per the revaluation date if it was on that date, generally comparable to the fair value or procurement value or revalued value in accordance with IFRS, and adjusted so as to reflect, for example the changes in the general or specific price index.

Estimates

The Company adopted certain estimates from the balance sheet, which was compiled in accordance with the former accounting rules as per the last day of the period ended before the transition to IFRS (IFRS 1.34).

In order to present comparable information, the financial statements of the Luka Koper Group, which is comprised of the parent company Luka Koper, d.d., Luka Koper INPO, d.o.o. (100%), Luka Koper Pristan d.o.o.(100%), Adria-Tow, d.o.o. (50%), Logistic service d.o.o. (100%) and Luka Kopar Beograd d.o.o. (90%), compiled in accordance with Slovene Accounting Standards, were adjusted so that they correspond to the International Financial Reporting Standards (IFRS).

	Luka Koper Group (In thousand of SIT)	Balance Sheet as per 1st Jan 2004 acc. to SAS	Adjustments according to IFRS	Balance Sheet as per 1st Jan 2004 acc. to IFRS	Disclosures
	Assets	**69,908,004**	**1,952,641**	**71,860,645**	
	A. Non-current assets	60,444,396	1,229,219	61,673,615	
I	**Intangible long-term assets**	**752,118**	**-139,083**	**613,035**	**1,2**
1	Long-term property rights	752,118	-139,083	613,035	
II	**Tangible fixed assets**	**33,214,043**	**95,449**	**33,309,492**	**2**
III	**Long-term investments**	**26,478,235**	**1,201,664**	**27,751,088**	**3**
IV	**Long-term assets**		**71,189**		
	B. Current assets	9,447,049	723,422	10,170,471	
I	**Inventories**	**9,537**		**9,537**	
II	**Operating receivables**	**4,230,557**	**-71,189**	**4,159,368**	**4**
A	Long-term operating receivables	71,189	-71,189	0	
B	Short-term operating receivables	4,159,368		4,159,368	
III	**Short-term investments**	**5,028,449**	**794,611**	**5,823,060**	**3**
IV	**Bank balance**	**178,506**		**178,506**	
	C. Deferred expeness and accrued revenues	16,559		16,559	
	Equity and liabilities	**69,908,004**	**1,952,640**	**71,860,644**	
	A. Equity	57,722,280	1,146,003	58,868,283	
I	**Share capital**	**14,000,000**		**14,000,000**	
II	**Capital surplus**	**0**	**21,462,806**	**21,462,806**	**6**
III	**Reserves from profit**	**18,589,072**		**18,589,073**	
IV	**Net profit or loss from previous periods**	**1,352,037**	**-168,503**	**1,183,534**	**7**
V	**Net profit or loss for the current year**	**1,942,724**		**1,942,724**	
VII	**Equity revaluation adjustments**	**21,726,455**	**-20,148,301**	**1,578,155**	**6,8**
VIII	**Equity - minority equity interests**	**111,992**		**111,992**	
	B. Provisions	1,165,078	424,638	1,589,716	9
	C. Financial and operating liabilities	10,800,585	382,001	11,182,586	
A	**Long-term financial and operating liabilities**	**1,320,963**	**0**	**1,320,963**	
B	**Short-term financial and operating liabilities**	**9,479,622**	**0**	**9,479,622**	
C	**Deferred tax liabilities**	**0**	**382,001**	**382,001**	**10**
	D. Accrued expenses and deferred revenues	220,060		220,060	

7.2 Explanation of Transfer to IFRS

Intangible long-term assets and tangible fixed assets - R 1, 2

We excluded within the Group those intangible long-term assets assessed as not recognizable by content in accordance with the provisions of IAS 38. The estimate was prepared on the basis of the examined fixed assets registry in relation to substantive rights and intangible long-term assets in acquisition. We recognized the total amount as a cost of SIT 44,633 thousand, which was decreased by 25% due to deferred taxes, and decreased the profit brought forward from the transition to IFRS by SIT 33,475 thousand.

All investments in foreign fixed assets that were recorded under intangible long-term assets were transferred to tangible fixed assets in the amount of SIT 94,499 thousand.

Investments - R 3

The fair value of investments available for sale on 1st January 2004 was SIT 1,997,275 thousand higher than their carrying value according to SAS. The carrying value of investments amounted to SIT 10,851,167 thousand, whereas the fair value amounted to SIT 12,848,442 thousand.
The values of long-term and short-term investments were increased to their fair values upon the transition to IFRS. The difference was recorded on the asset side of the balance sheet as an increase of long-term and short-term investments available for sale, whereas the revaluation surplus from the transfer to IFRS was increased on the liability side.

Long-term receivables - R 4

Long-term receivables, which are classified under fixed assets and not under current assets, were transferred in the amount of SIT 71,189 thousand to the loan and receivables group within fixed assets valued according to their settlement value.

Capital surplus - R 6

The balance of general equity revaluation adjustment in the amount of SIT 21,462,806 thousand was transferred to the capital surplus item.

Special equity revaluation adjustment - R 7, 8

The special equity revaluation adjustment occurring from the revaluation of investments in subsidiary companies in the amount of SIT 142,316 thousand was transferred within the Group and the net profit from the transition to IFRS was increased. The cost entered on the accounts of investments to subsidiary companies are those values that were disclosed in the accounting records as at 1st January 2002 in accordance with IFRS 8 (Article 23 - Restrictions on Retrospective Use), which allows for this possibility in cases when the effects of changes before such period cannot be determined. The total sum of purchase values of subsidiary companies equals SIT 1,012,409 thousand.

The special equity revaluation adjustment occurring from profits of associated companies in the amount of SIT 41,135 thousand was transferred to net profit brought forward from the transition to IFRS. The sum of procurement values of investments in associated companies equals SIT 1,345,787 thousand.

The profit brought forward therefore increased by SIT 183,451 thousand. This amount is disclosed separately in the table, as it was not included in the calculation of deferred taxes liabilities from the transition to IFRS.

Provisions - R 9

In accordance with SAS, the Group recorded long-term provisions for general repairs for several years. Their carrying value as at 1st January 2004 amounted to SIT 74,739 thousand. We reduced the value of provisions, as such provisions in the opening balance sheet do not fulfil the recognition requirements according to IFRS, and increased the net profit brought forward and consequently also the equity in the amount of SIT 56,054 thousand, disclosing liabilities for deferred taxes in the amount of SIT 18,685 thousand, which is derived from the recalculation of the long-term provisions item according to IFRS.

In accordance with IAS 19 - other long-term employee benefits to employees (retirement compensation, jubilee rewards), the Company recorded long-term provisions based on an actuarial calculation for severance pays (compensation) and similar liabilities in the amount of SIT 499,377 thousand, decreased them by 25 % of deferred taxes, and decreased the profit brought forward from the transition to IFRS by SIT 374,533 thousand.

Deferred taxes - R 10

By applying the liability method as per the balance sheet date, deferred taxes derived from the differences between financial statements prepared according to SAS and financial statements compiled according to IFRS were divided into deferred taxes related to items which have a direct influence on profit brought forward, and deferred taxes related to items which influence other equity items. In relation to profit brought forward from the transition to IFRS, it was determined that the profit brought forward decreased by SIT 469,272 thousand, after deduction of deferred tax assets from the transition to IFRS in the amount SIT 117,318 thousand, equaling SIT 351,954 thousand. The tax rate applied in the calculation of deferred taxes is 25%.

Deferred taxes from equity revaluation due to the valuation of financial assets available for sale at fair value were disclosed separately and differ from the carrying value according to SAS by SIT 1,997,275 thousand (after deduction of deferred tax liabilities these amount to SIT 1,497,956 thousand). Tax in the amount of 25% represents deferred tax liabilities from the transition to IFRS as temporary differences in the amount of SIT 499,319 thousand.

Deferred tax liabilities amount to SIT 499, 319 thousand, which represents 25% of the established difference from the valuation of investments available for sale at fair value over the equity. Receivables and liabilities from both sources were set-off in the balance sheet and disclosed in the total amount of SIT 382,001 thousand.

7.3 Changes in Equity of the Luka Koper Group as at 1st January 2004

		(In thousands of SIT)
I.	Equity balance as per 1st January 2004 according to SAS	57,722,280
1.	Increase of profit brought forward for cancellation of provisions for general repairs	56,054
2.	Increase of capital surplus due to transfer from general equity revaluation adjustments item	21,462,806
3.	Decrease of general equity revaluation adjustment	-21,462,806
4.	Increase of profit brought forward by profits of subsidiary and associated companies according to equity method	183,451
5.	Decrease of special equity revaluation adjustment	-183,451
6.	Decreases of profit brought forward by the amounts of established provisions (retirement compensation and jubilee rewards)	-374,533
7.	Decrease of profit brought forward for exclusion of intangible fixed assets which, by content, represent a cost	-33,475
8.	Formation of surplus from revaluation of investments available for sale	1,497,956
	The difference represents an increase in equity by	**1,146,003**
II.	Equity balance as per 1st January 2004 according to IFRS	58,868,283

7.4 Presentation of the Effects of Adjustment of Accounting Items according to IFRS

Income statement

The net profit determined for 2004 on the basis of SAS increased, after giving due consideration to accounting item adjustments, by SIT 28,598 thousand due to the transition to IFRS (use of provisions for general repairs, provisions for retirement compensation and jubilee rewards) and by SIT 881,115 thousand from the profits of subsidiary companies. Therefore, the net profit of the Luka Koper Group determined for 2004 according to SAS increased by SIT 909,713 thousand. The net profit for 2004 according to IFRS amounted to SIT 5,304,163 thousand.

Balance sheet

The effects of the adjustment of the balance sheet items due to the transition to IFRS resulted, in comparison with SAS, in the increase of assets as per 31 December 2004 by the amount of SIT 1,870,130 thousand.

Changes in non-current and current assets occurred due to the transfer of investments in foreign fixed assets, which had been recorded under intangible long-term assets, to tangible fixed assets in the amount of SIT 242,060 thousand. Long-term and short-term investments increased by SIT 1,871,739 thousand due to their revaluation at fair value, which on 31 December 2004 was higher than their carrying value according to SAS.

Equity and liabilities increased due to the effects on equity (most important was the increase of revaluation surplus due to the revaluation of investments at their fair value), the formation of provisions for severance pays and jubilee rewards, and deferred tax liabilities from the transition to IFRS in the amount of SIT 1,870,130 thousand.

Effects related to equity

		(In thousands of SIT)
I.	Equity balance as per 31 December 2004 according to SAS	60,811,978
1.	Increase of profit brought forward by net profit of the financial year	28,598
2.	Increase of capital surplus due to transfer from the general equity revaluation adjustment item	21,462,806
3.	Decrease of general equity revaluation adjustment	-21,462,806
4.	Decrease of profit brought forward due to transition to IFRS	-351,954
5.	Formation of surplus from revaluation of investments available for sale	1,401,907
	The difference represents an increase in equity by	**1,078,551**
II.	Equity balance as per 31 December 2004 according to IFRS	61,890,528

Formation of provisions

The Company recorded long-term provisions for severance pays and similar liabilities in accordance with IAS 19 - other long-term employee benefits in the amount of SIT 451,385 thousand, which were decreased by utilised provisions for general repairs recorded in accordance with SAS in the amount of SIT 19,324 thousand.

Deferred tax liabilities

Deferred tax liabilities and receivables occurring due to the adjustment of individual categories within the transition to IFRS were set off. Deferred tax liabilities prevail in the amount of SIT 359,518 thousand.

Cash flow statement

The Company reports its funds flows from operating activities using the indirect method also after the transition to IFRS. No funds flow effects occurred from the transition to IFRS and the net cash flow position equals the cash flow position determined according to SAS. The differences determined from the transition were reallocated to individual categories.

8. Notes to the Financial Statements for the Financial Year ended 31 December 2005, prepared in Accordance with IFRS

8.1 Notes to the Income Statement

8.1.1 Operating revenues

(In thousands of SIT)	2005	2004
Operating revenues	22,192,886	18,127,305
Revenues from services sold on the domestic market	2,836,369	2,480,326
Revenues from services sold on foreign markets	17,651,029	14,722,813
Revenues from goods and materials sold on the domestic market	3,572	4,065
Revenues from the use and cancellation of provisions	36,317	36,339
Revenues from rents	708,059	578,677
Other revenues related to products and services	335,454	173,842
Other operating revenues	0	122,369
Revaluatory operating revenues	622,086	8,650
Capitalized own products	0	224

The Luka Koper Group realized SIT 22.19 billion in operating revenues, which is 22% more than in 2004.
The majority of operating revenues is derived from the principal activity of cargo handling, where the Company recorded a 5% growth of turnover in 2005. The market structure of cargo handling indicates that 30 percent represents cargo handled for the Slovene market, while the remaining share represents transit goods intended for foreign markets in our hinterland. The majority of transit goods are intended for the Austrian market, followed by the Italian and Hungarian markets. Petroleum products represent 48 percent of the total cargo handled. Likewise, revenues from maritime and utility activities increased with the increasing number of ships at moorings, which represents 3% of the total revenues. Ship towing activities contributed an additional 3.5% of the operating revenues. Revenues from rents in the area of port activities also increased by 22%.
Revaluation revenues (SIT 620 million), realised through the sale of certain fixed assets to the Municipality of Koper for the construction of the northern bypass road, also had an impact on the disclosed operating revenues.

	2005	2004	Index 2005/04
Operating efficiency ratio	1.247	1.099	113
Total efficiency ratio	1.312	1.352	97
Added value per employee (in thousands of SIT)	13,582	11,325	120

The total efficiency ratio discloses the ratio between the total revenues and expenses. A ratio value above one indicates the intensity of creation of the operating result. This year’s total efficiency ratio is lower due to higher revenues from the sale of financial investments in 2004. The operating efficiency ratio indicates only the relation between operating revenues and expenses, and reveals the amount of operating revenues created by the company per 100 tolars of operating expenses. Both indicators disclose successful operating performance under the condition that the company simultaneously discloses a net profit.
Luka Koper Group realized SIT 13.5 billion of added value per employee in 2005, which is 20 percent more than in 2004. The added value amounted to SIT 12.9 billion, which is 23 percent above the 2004 figure.

8.1.2 Operating costs

(In thousands of SIT)	2005	2004
Operating costs	17,799,903	16,487,439
Costs of goods and material sold	2,401	3,461
Costs of material	1,183,270	972,946
Costs of services	6,246,531	5,463,871
Write-offs	3,429,237	3,268,177
Long-term provisions	0	116,300
Labour costs	5,689,439	5,437,576
Other costs	1,249,025	1,111,743
Costs of other services	0	113,365

Operating costs amounted to SIT 17.8 billion in 2005, which is 8% more than in 2004. The previous year's operating costs were surpassed in all cost groups. The highest influence on the increase of operating costs in 2005 was attributable to costs of subcontractors and costs of forwarding services as integral parts of logistic services involving the transport of fruit, vegetables, coal, glass and cars. In addition to costs related to the volume of handled cargo, operating costs also increased due to the costs of eliminating the consequences of a gas oil spill in the port aquatorium, and the transferred costs of stallage and damages, which in previous years had been recorded under extraordinary expenses.
Costs of material are dominated by energy costs in the amount of SIT 0.8 billion, where we recorded a significant growth of engine fuel costs (SIT 0.45 billion) as the result of the increasing prices of petroleum products in world markets and the expected 5% increase in electric power costs in 2005 (SIT 0.29 billion).
Maintenance costs in the amount of SIT 1.8 billion decreased by 2% in comparison with 2004.
One half of other costs comprise a fee for building land use in the amount of SIT 0.6 billion. Other significant categories of other costs include environmental protection expenses in the amount of SIT 0.3 billion and transferred items, which in previous years were recorded under extraordinary revenues in the amount of SIT 0.25 billion.

Labour costs

(In thousands of SIT)	2005	2004
Labour costs	5,689,439	5,437,576
Salaries	3,456,077	3,387,504
Salary compensations	612,765	523,332
Supplementary pension insurance costs	157,225	154,757
Holiday allowance, reimbursements and other costs	588,766	516,037
Employer's contributions from employee remunerations	648,782	627,892
Other employer's contributions from employee remunerations	225,824	228,054

Labour costs in the amount of SIT 5.7 billion increased by 5% in comparison to the previous year, whereas the number of employees increased by 3%. The highest increase within labour costs (14%) was recorded by reimbursement costs and other employee benefits (meal allowance, transportation, innovations, holiday allowance, ...), which amounted to a total of SIT 0.66 billion. All companies within the Luka Koper Group are included in the supplementary pension insurance scheme, except Adria-Tow, d.o.o.. The Company allocated SIT 0.15 billion for this purpose, which represents a 3.5% increase over 2004.
On 31 December 2005 the Luka Koper Group had a total of 949 employees, of which 55 were employed on the basis of individual employment contracts. At the end of 2004 the Group had 918 employees.
The total amount of salaries received in the Luka Koper Group by employees with individual employment contracts in 2005 was SIT 665,423 thousand.

Costs paid out to the members of the Supervisory Board amounted to SIT 8,810 thousand in 2005, whereas in the previous year these costs were equal to SIT 5,629 thousand.

A new four-member Management Board was appointed in Luka Koper, d.d. in 2005. The Chairman and one member of the Management Board were appointed on 24 October, 2005, while the remaining two members were appointed on 4 November, 2005. The total gross amount of the fixed and variable portions of the salary paid to the Management Board was SIT 49,941 thousand. This amount equalled SIT 39,123 thousand in 2004.

The Management Board also received a portion of holiday allowance in the amount of SIT 180 thousand per employee.

The total gross amount of SIT 169,138 thousand was paid out in holiday allowances by the Luka Koper Group in 2005, compared to SIT 162,775 thousand in 2004, which is in accordance with the Decree on Holiday Allowances issued by the Government of the Republic of Slovenia. In December 2005, the employees of the Luka Koper Group received a 13th salary from the total gross amount of SIT 265,141 thousand, in comparison with SIT 268,165 thousand at the end of 2004.

All companies in the Luka Koper Group, expect Adria-Tow, d.o.o., are included in the supplementary pension insurance scheme. The amount of SIT 150,492 thousand was allocated for this purpose in 2005, compared to SIT 145,327 thousand in 2004.

8.1.3 Financial revenues

(In thousands of SIT)	2005	2004
Financial revenues	2,259,335	5,343,581
Interest revenues	480,316	649,038
Financial revenues from subsidiary companies	239,279	881,115
Revenues from dividends and other shares in profits	838,152	768,806
Revenues from revaluation of receivables due to value maintenance	251,749	354,015
Revenues from loans granted	0	3,239
Decrease of long-term provisions	0	103,060
Revenues from sales of investments	353,951	2,513,322
Other financial revenues	16,399	26,691
Revaluatory financial revenues due to strengthening	79,489	44,295

Total financial revenues amounted to SIT 2.26 billion in 2005, which is 58% less than in 2004. Lower financial revenues reflect the significantly lower revenues from the sale of investments in comparison with 2004. Revenues from dividends and other shares (SIT 0.83 billion) was the biggest contributor to financial revenues. Interest revenues decreased by 26% in 2005 in comparison to 2004 and amounted to SIT 0.48 billion. This reduction is a reflection of reduced investments in long-term deposits held with Banka Koper, d.d.. Revenues from currency exchange gains amounted to SIT 0.18 billion.

Financial revenues significantly decreased in 2005 in comparison with 2004 and amounted to SIT 2,259,335 thousand. Interest revenues declined mainly due to the lower volume of placements in deposits and the lowering of interest rates on standard banking products, as well as the considerably lower volume of loans granted to other companies.

Luka Koper, d.d. sold less financial investments in 2005 than in 2004, and thus the revenues from sale of investments item is correspondingly lower. In 2005, the Company sold shares of Autocommerce d.d., Probanka d.d. and Factor banka d.d., as well as shares of Prva pokojninska družba d.d.. The purchase value of investments sold amounted to SIT 2,530,682 thousand, whereas the sales value equalled SIT 2,877,988 thousand. The realized sales gains thus totalled SIT 347,306 thousand.

Revenues from dividends amounted to SIT 838,152 thousand. Dividends from Banka Koper d.d. and Intereuropa d.d. amounted to SIT 704,835 thousand.

8.1.4 Financial expenses

(In thousands of SIT)	2005	2004
Financial expenses	830,402	870,952
Interest expenses	237,593	390,882
Expenses from revaluation of debts due to value maintenance	295,599	251,627
Other financial expenses	2,540	21,365
Revaluatory financial expenses from impairment	294,670	207,078

Financial expenses amounted to SIT 0.8 billion and decreased by 16% in comparison to 2004. Revaluatory financial expenses (SIT 0.29 billion) are the result of the impairment of investments in the companies Bonfika and Medicor. We managed to lower interest expenses by 39% due to the restructuring of loans into more favourable loans in Euros with a lower interest rate. Currency exchange losses increased by 17% in 2005 and amounted to SIT 0.29 billion.

The largest items among revaluatory financial expenses from impairment in the total amount of SIT 294,670 thousand comprise impairments of investments in the companies Bonfika and MC Medicor, and impairments of loans granted to the companies OM-DIP, Neno M, Metro AS and Digontrade. We expect that the majority of loans will be at least partially repaid in spite of complicated collection procedures. We also recorded allowances for investments in the associated companies Kopinvest Netherlands BV and Golf Istra.

8.1.5 Corporate income tax

Corporate income tax was calculated according to the Corporate Income Tax Act, which came into effect on 1st January 2005, and the Law on Modifications and Amendments of the Corporate Income Tax Act, which became effective on 1st January 2006, but some of its provisions also apply for 2005.
Additional tax benefits are in place for all companies operating in the port's commercial zone for investments in fixed assets intended for the development and expansion of their activities. Similar to the previous year, Luka Koper, d.d. and Adria-Tow, d.o.o. did not obtain a relevant decree from the Tax Administration of the Republic of Slovenia enabling them to claim such tax reliefs. Legal action has been initiated for this purpose.

No. in form.	Calculation of corporate income tax (In thousands of SIT)	Luka Koper, d.d.		Luka Koper INPO		Luka Koper Pristan		Adria-Tow	
		2005	2004	2005	2004	2005	2004	2005	2004
1.	Revenues determined according to accounting regulations	22,630,793	21,115,427	1,331,551		159,379	160,035	835,875	665,105
2.	Adjustment of revenues to the level of taxable revenues - decrease	465,723	0	0		0	0	0	0
3.	Adjustment of revenues to the level of taxable revenues - increase	19,712	18,455	0		0	0	0	0
4.	Taxable revenues	22,184,782	21,133,882	1,331,551		159,379	160,035	835,875	665,105
5.	Expenses determined according to accounting regulations	17,532,800	16,254,597	1,133,513		144,245	139,428	604,905	455,351
6.	Adjustment of expenses to the level of tax expenses - decrease	702,425	326,162	34,513		3,717	1,428	9,897	1,725
7.	Adjustment of expenses to the level of tax expenses - increase	5,804	0	0		0	0	0	0
8.	Tax expenses	16,836,179	15,928,435	1,099,000		140,528	138,000	595,008	453,626
9.	Difference between taxable revenues and tax expenses	5,348,603	5,205,477	232,551		18,851	22,356	240,867	211,479
12.	Increase of tax base	2,877	0	0		0	0	110,740	0
13.	Tax base	5,351,479	5,205,447	232,551		18,851	22,356	351,607	211,479
15.	Decrease of tax base and tax reliefs	1,395,463	2,488,495	232,551		10,046	4,820	410	132,915
16.	Tax base (25%)	3,956,016	2,716,952	0		8,805	17,536	351,197	78,564
17.	Corporate income tax	989,004	679,235	0		2,201	4,384	87,799	19,641
	Deferred taxes	**79,992**	**0**	**0**		**271**	**0**	**2,039**	**0**

* Since no consolidated tax calculation is performed for the Luka Koper Group, data is disclosed for the calculation of corporate income tax of individual companies.

Corporate income tax increased by SIT 309,769 thousand in 2005 and also includes deferred taxes in the amount of SIT 79,992 thousand. The increase is the result of the cancellation of certain tax reliefs in the investment area and the increase in the amount of non-deductible expenses.

The subsidiary company Luka Koper INPO, d.o.o. has such high tax reliefs due to the employment of disabled employees that it has no tax base for the calculation of tax. Disability companies were not required to pay any income taxes in 2004. As of 1st January 2005, the new tax legislation stipulates that disability companies are also obliged to calculate and pay potential income tax.

Luka Koper Pristan disclosed SIT 2,201 thousand of corporate income tax and SIT 271 thousand of deferred taxes, which is less in comparison with the previous year, mainly due to higher tax reliefs for investing and the disabled employees.

Adria-Tow, d.o.o. disclosed a corporate income tax in the amount of SIT 87,799 thousand and SIT 2,039 thousand in deferred taxes. The tax base increased in comparison with the previous year due to increased revenues and the return of utilised tax relief for investing in fixed assets.

8.1.6 Deferred taxes

The Company disclosed SIT 82,302 thousand in receivables from deferred taxes in 2005, which were the result of temporary differences between non-deductible expenses for the revaluation of receivables in all companies, and impairments of investments in Luka Koper, d.d.. Receivables from deferred taxes were decreased by SIT 10,126 thousand in determined liabilities from the increase of profit due to the transition to IFRS.

8.1.7 Net profit for the financial year

Luka Koper Group generated a total net profit of SIT 5.8 billion in 2005, which is 5% less than in 2004. The lower total profit is primarily the reflection of higher revenues from the sale of investments in 2004.
As in the previous year, Luka Koper, d.d. and Adria-Tow, d.o.o. did not obtain in 2005 a relevant decree from the Tax Administration of the Republic of Slovenia enabling them to apply for a lower tax rate based on their business operation in the port's commercial zone. Consequently, the corporate income tax for 2005 equals SIT 1.08 billion. In 2004 we claimed a higher tax cut for an investment in the construction of a tugboat, which debited the result in 2005 due to the premature termination of our investment in this asset. For this reason the corporate income tax is 53% higher than in 2004.
The net profit of majority owners in the amount of SIT 4.7 billion is 11% lower than in 2004.

Changes in revenue profitability and return on equity

	2005	2004	Index 2005/04
Net profit margin (%)	21.369	29.261	73
Net profit to operating revenues (%)	19.8	9.0	219
Net profit to total revenues ratio (%)	19.395	22.599	86
Net return on owners equity *	0.078	0.094	83
Dividend to share capital ratio	0.165	0.157	105
Return on ownership capital (%) *	7.479	8.570	87

* The average balance of ownership capital was calculated only for 2005, whereas the balance at year end applied for 2004.

The net profit to operating revenues ratio indicates a decreasing trend in the level of after-tax profit in operating revenues, which is the result of a lower profit from financing activities, which generated higher revenues in 2004 from the sale of investments. The Group realized SIT 21 of net profit per SIT 100 of operating revenues, which is 27% less than in 2004. The net profit margin decreased by 14% in 2005 in relation to 2004, and amounts to 19.4%. Improvements in efficiency and the organisation of operations as well as the changed cargo handling structure were reflected in the trend of increasing operating profit in operating revenues in 2005. The net profit to operating revenues ratio was equal to 19.8% in 2005 and is 119% higher than in 2004.
The return on average equity (net profit for financial year/average equity (excluding net profit for the current year)) indicates a 17% decrease in comparison with the previous year.

8.1.8 Earnings per share

The goal of this information is to present a measure for shares of each ordinary share of the parent company in a company's performance in a relevant period.
Basic earnings per share ratio is calculated so that the total profit is reduced by income tax, minority interests and the amount of dividends paid out to the owners of preferred shares (fixed and variable portion of dividends). The numerator obtained in the above-mentioned manner, which relates to ordinary shareholders, is then divided by the weighted average number of ordinary shares outstanding within the financial period.
The Company made adjustments in the calculation of the adjusted earnings per share ratio for the effects of all potential ordinary shares, which means that the basic net profit (numerator) was increased by the amount of dividends related to potential ordinary shares, and the denominator by the number of preferred shares.

A potential ordinary share is a financial instrument or any other agreement which grants its owner the right to ordinary shares. Potential shares are also preferred shares, which can be converted into ordinary shares. (Articles 5 and 7 of IAS 33).

Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares decreases the earnings per share from preserved operations (permanent ordinary operations). (Article 41 of IAS 33).

The calculations, which foresee an exchange ratio of 1:1, are intended for informative purposes only, as the principle of conversion into ordinary shares was not clearly determined with the owner of participating preference shares, that is the Republic of Slovenia (the exchange ratio is not clear).

Basic earnings per share	2005	2004
Net profit of ordinary shareholders (in thousands of SIT)	4,290,686	4,852,366
Average number of ordinary shares	7,140,000	7,140,000
Basic earnings per share in SIT	600.94	679.60

Diluted earnings per share	2005	2004
Net profit of ordinary shareholders (in thousands of SIT)	4,742,482	5,304,162
Average number of shares	14,000,000	14,000,000
Diluted earnings per share in SIT	338.75	378.87

Note: The final dividend amount will only be confirmed by the General Meeting of Shareholders, on the proposal of the Management and Supervisory Boards of the Company, in the second half of the year.

8.2 Assets and Liabilities

Assets are dominated by fixed assets, which account for 47% of the total assets. Long-term and short-term investments amounted to SIT 36.8 billion, which represents 46% of the balance sheet total or the total assets.
Assets in the amount of SIT 79 billion are mostly financed by own sources. The equity of the majority owners amounted to SIT 64.6 billion as at 31 December 2005, which represents 82% of all assets. The capital surplus amounted to SIT 21.4 billion and revenues from profit to SIT 22.2 billion.
The Company's operations were not burdened by long-term operating liabilities at the end of 2005, whereas long-term financial liabilities amounted to only 10% of the balance sheet total.
Short-term liabilities are settled within the agreed terms. The balance of short-term liabilities at the end of 2005 was equal to 4% of the total assets. All short-term liabilities can be covered by short-term trade receivables. The commercial receivables-liabilities ratio (trade receivables/liabilities to suppliers) was equal to 120 percent. The largest receivable among receivables due over 90 days is the result of the sale of fixed assets to the Municipality of Koper (SIT 336 million).

The assets side of the balance sheet did not change significantly in terms of value and structure. Short-term investments increased by 26% and amounted to SIT 10.5 billion. Due to changes in the financing policy of the parent company, Luka Koper, d.d. withdrew all its loan agreements with its subsidiary companies, which consequently placed their surplus cash amounts in bank deposits. Long-term financial liabilities to Banka Koper increased by SIT 4.5 billion, while at the same time short-term liabilities to Banka Koper decreased by SIT 3.6 billion on the liability side of the balance sheet. A short-term bank loan that was transformed into a long-term loan is thus no longer disclosed under short-term liabilities.

Financing, investing and short-term liability coverage ratios

	31 Dec 2005	31 Dec 2004	Index 2005/04
Equity financing rate	0.82	0.80	102
Long-term financing rate	0.95	0.88	108
Operating fixed assets to assets rate	0.47	0.48	98
Long-term assets rate	0.80	0.82	98
Equity to operating fixed assets	1.74	1.68	103
Acid test ratio	3.07	0.98	312
Quick ratio	4.33	1.53	283
Current ratio	4.33	1.53	283

Fixed assets and investments dominate the structure of assets. The asset composition indicates their long-term nature, which is also confirmed by the values of the long-term financing rate and the operating fixed asset rate. The latter displays the share of fixed assets in the total assets.
The high levels of the long-term financing rate and the operating fixed assets rate indicate a high coverage of sources of funds with capital and long-term liabilities. The ratios reflect a high level of financial stability in operations. This is also confirmed by the equity to operating fixed assets ratio, which indicates that all fixed assets are financed with owner's equity. Short-term liability coverage ratios indicate that the Company is capable of covering its liabilities with own funds within the short-term period. The acid test, quick, and current ratios disclose an extremely stable financing situation.

8.2.1 Intangible assets

	(In thousands of SIT)	2005	2004
I.	Intangible assets	261,983	506,928
3.	Long-term property rights	261,983	506,928

The useful lives of intangible fixed assets recorded in our accounting records are final. A 10% depreciation rate and the straight-line depreciation method are applied. Intangible fixed assets were not impaired in 2005. Their changes and value adjustments (allowances) are disclosed in the attached table for 2005 and compared with 2004.

Depreciation of intangible long-term assets are disclosed under point 8.1.2 as write-offs.

8.2.2 Tangible fixed assets

	(In thousands of SIT)	2005	2004
II.	Tangible fixed assets	37,375,810	36,857,001
1.	Land and buildings	29,329,840	27,861,460
a.	Land	425,739	425,739
b.	Buildings	28,904,101	27,435,721
2.	Equipment and machinery	7,266,372	6,249,505
3.	Other equipment and machinery	13,142	13,993
4.	Fixed assets in acquisition	766,456	2,732,043

Luka Koper Group discloses tangible fixed assets at their cost, reduced by accumulated depreciation and impairments. In comparison with 2004, the depreciation rates were not amended in 2005. Likewise, none of the companies performed impairments of fixed assets in 2005.

The Group companies use the linear depreciation method, which is characterised by constant depreciation amounts throughout the entire useful life of an asset. The applied deprecation method is verified at the end of each financial year. The remaining value of an asset is generally considered only in material items, where the liquidation costs of a tangible fixed asset are also considered.

The subsidiary company Adria-Tow pledged its fixed asset (tugboat) with Luka Koper, d.d. as collateral for liabilities under a granted loan. No other assets are pledged within the Group.

Fixed assets permanently out of service

(In thousands of SIT)	Cost	Allowance	Carrying value
Luka Koper, d.d.	330,852	330,852	0
Luka Koper INPO, d.o.o.	9,975	9,975	0
Adria-Tow, d.o.o.	2,422	2,422	0
Total	343,249	343,249	0

Depreciation rates applied:

Depreciation rates:

Construction facilities:	
- operative quays	2 %
- open areas	5 %
- buildings	1.5 % to 12.5 %
- railway lines	4 %
- infrastructure	2 % to 8.3 %
Equipment:	6.7 % to 33.3 %
Small tools:	11 % to 33.3 %

The following table displays changes in tangible and intangible long-term assets for 2005 and 2004.

Table of changes in tangible fixed and intangible long-term assets for the year 2005

(In thousands of SIT) 2005	Land	Buildings	Production equipment and small tools	On-going investments	Total tangible fixed assets	Intangible long-term assets	Intangible long-term assets under acquisition	Total intangible long-term assets
Cost								
Balance as at 1st January 2005	425,739	51,846,136	31,031,630	2,732,043	86,035,548	2,670,852	88,579	2,759,431
Increases		3,767,751	2,365,266	3,818,273	9,951,290	41,503	24,678	66,181
Decreases		-1,196,153	-42,861	-5,783,860	-7,022,874		-105,371	-105,371
Revaluation due to:								
- impairment								
- strengthening								
- reversal of impairment								
Balance as at 31 December 2005	425,739	54,417,734	33,354,035	766,456	88,963,964	2,712,355	7,886	2,720,241
Allowance								
Balance as at 1st January 2005		24,442,065	24,768,824		49,210,889	2,252,556		2,252,556
Depreciation for the current year		1,836,249	1,343,146		3,179,395	205,702		205,702
Decreases		-764,681	-37,449		-802,130			
Revaluation due to:								
- strengthening								
- impairment								
Balance as at 31 December 2005		25,513,633	26,074,521		51,588,154	2,458,258		2,458,258
Carrying value								
Balance as at 1st January 2005	425,739	27,435,721	6,263,498	2,732,043	36,857,001	418,296	88,579	506,872
Balance as at 31 December 2005	425,739	28,904,101	7,279,514	766,456	37,375,810	254,097	7,886	261,983

Table of changes in tangible fixed and intangible long-term assets for the year 2004

(In thousands of SIT) 2004	Land	Buildings	Production equipment and small tools	On-going investments	Total tangible fixed assets	Intangible long-term assets	Intangible long-term assets under acquisition	Total intangible long-term assets
Cost								
Balance as at 1st January 2004	73,946	48,782,574	30,061,603	1,270,294	80,188,417	2,649,773	12,525	2,662,298
Increases	351,793	3,110,025	1,600,552	5,484,358	10,546,728	88,394	128,709	217,103
Decreases		-14,813	-629,833	-4,022,609	-4,667,255	-67,315	-52,655	-119,970
Revaluation due to:								
- impairment								
- strengthening								
- reversal of impairment								
Balance as at 31 December 2004	425,739	51,877,786	31,032,322	2,732,043	86,067,890	2,670,852	88,579	2,759,431
Allowance								
Balance as at 1st January 2004		22,697,694	24,181,231		46,878,925	2,049,213		2,049,213
Depreciation for the current year		1,759,097	1,209,285		2,968,382	238,422		238,422
Decreases		-14,726	-621,692		-636,418	-35,079		-35,079
Revaluation due to:								
- strengthening								
- impairment								
Balance as at 31 December 2004		24,442,065	24,768,824		49,210,889	2,252,556		2,252,556
Carrying value								
Balance as at 1st January 2004	73,946	26,084,880	5,880,372	1,270,294	33,309,492	600,560	12,525	613,085
Balance as at 31 December 2004	425,739	27,435,721	6,263,498	2,732,043	36,857,001	418,296	88,579	506,875

8.2.3 Long-term investments

	(In thousands of SIT)	2005	2004
III.	Long-term investments	26,288,065	26,136,052
1.	Shares in Group companies	0	0
2.	Shares in associated companies	13,814,975	12,790,111
3.	Other long-term shares	10,387,243	10,775,870
4.	Other long-term receivables	2,085,847	2,570,071

Changes in interest rates do not represent a significant risk for the Company, as the structure of sources of funds and the Company's credit rating enable it to acquire funding at the most favourable terms. Interest is also balanced in relation to financial liabilities and assets according to maturity structure. As at 31 December 2005, we had EUR 32 million of loans received and SIT 250 million of investments in bonds, which bear an interest rate linked to EURIBOR. Certificate deposits, whose interest rate changes in accordance with the basic interest rate (TOM), amounted to SIT 1,831 million as at 31 December 2005. Bond investments, which bear an interest rate tied to the basic interest rate (TOM), amounted to SIT 298 million.

Disclosures related to information about risks associated with financial instruments are disclosed in the Business Report under the heading of Analysis of Business Performance and its Item of Risk Management. Since most financial investments relate to the parent company, which also accounts for the predominant part of the Group, the exposure and risk management described in the Business Report are also applicable to the Group.

8.2.3.1 Shares in associated companies

The financial statements of associated companies were prepared on the same date as the reporting period for the Luka Koper Group. They are included in the Group's financial statements according to the equity method and are recorded under non-short-term assets. The carrying value of these investments equals SIT 13,814,975 thousand.

The purchase value of an investment in Intereuropa d.d., whose shares are listed on the stock exchange and its share price is publicly quoted, is higher than the price quoted on the stock exchange. The uniform share price as per 31 December 2005 was SIT 5,362.84.
Based on existing independent evidence of the possible impairment of the investment and in accordance with the selected valuation method for investments in associated and other companies operating as joint stock companies, the Company performed a valuation using the dividend discount model, and determined the discount rate using the CAPM model.
The selected model was used to calculate the share price, which was higher than our purchase value and therefore the investment was not impaired.

However, we did impair an investment in the associated company Gold Istra, d.o.o., which has disclosed a loss in its balance sheet for the past two years. The investment was impaired in 2004 and 2005 in the amount of SIT 28,200 thousand, that is 100%. All other associated companies disclosed a profit in 2005, which is also disclosed in the income statement of the Luka Koper Group.

8.2.3.2 Other long-term shares

The prevailing portion of investments in other long-term shares comprised stocks listed on the stock exchange, among which the most important are the shares of Krka, Gorenje and Petrol. These were classified in the group of investments available for sale. Their carrying value, which amounted to SIT 2,900,374 thousand as at the balance sheet date, was compared to the published market value, which amounted to SIT 5,333,493 thousand, and the valuation effects were allocated to the increase of investments and to the valuation surplus as a special equity component.
The shares of Banka Koper d.d. are predominant among non-marketable securities. The Company holds a put option for the shares of Banka Koper, d.d., which may be executed on 30 June 2006. The carrying value of shares in our accounting records is higher than the book value of the bank's shares on the last day of the financial year, but lower than the value stated in the option contract as at 31 December 2005; these shares were therefore not impaired.
Discussions regarding mutual relations have been reopened between the largest shareholders and Sanpaolo IMI. An expression of interest was made for the retention of ownership shares of Slovene owners in Banka Koper. The Italian partner agreed in principal and announced that it will commence procedures with the Bank of Slovenia for acquiring consent for the expansion of its voting rights. A new shareholder agreement is being prepared in accordance with the agreement between the largest shareholders, which will regulate their mutual relations in the upcoming five-year period, including retention of the put option. We informed the Bank of Slovenia on the foreseen activities and the intention to conclude negotiations with the Sanpaolo IMI Group in the upcoming two-month period at a meeting held on 25 January 2006. In light of ongoing discussions, the investment is still disclosed under long-term investments.

A note was entered in the central registry of KDD (Central Securities Clearing Corporation) under the shares of Banka Koper acquired in 2002, which prevented Luka Koper to sell or freely dispose of, in any other manner, the shares of Banka Koper until 31 December 2005. Procedures for cancellation of the note preventing free disposal of the entire amount of shares (that is 53,136 shares of Banka Koper) are under way, as the above-mentioned encumbrance has expired.

The following investments were classified in the group of assets that are available for sale: the shares of Krka, Pivovarna Laško, Petrol and Gorenje, as well as units of the mutual funds Triglav Steber I., Pika, Živa, Triglav Renta, Modra kombinacija, Vizija, Skala and Alfa. All these investments were valued at their fair value.

The investments for which no fair value was published were valued at their cost. The most important investment in this group is the investment in the shares ob Banka Koper, which is disclosed and presented in the second and third paragraphs of this Note. These investments also include the following: the shares of the companies Marles and Rašica, NLB, foreign bank KB 1909, Pokojninska družba A, MC Medicor, shares of Banka Koper d.d. and shares in companies Aerodrom Portorož, IEDC Bled, Primorske novice, Luka Koper Beograd and Nacionalna fundacija za poslovno odličnost.

Impairments of investments were performed for investment in the shares of Marles and Rašica - due to their small size, we attempted to obtain information about the fair value of an individual investment, but without success. We therefore decided in 2004 to record an impairment up to the amount of the carrying values of shares, which were communicated to us by their issuers. The impairment of an investment in the shares of NLB was performed in the same manner. This was, however, reversed at the end of the year on the basis of an acquisition of market value from the grey market. An impairment in the amount of 100% was also recorded in 2005 for the shares of MC Medicor, mainly due to operating loss, too high indebtedness, liquidity difficulties, and other unsolved contextual issues.

Other non-marketable investments are recorded according to their purchase values. No impairments were performed for these, as we received no signals for impairment, mainly due to smaller amounts of individual investments, as well as unavailable market information and input elements for valuation.

8.2.3.3 Other long-term financial investments

Long-term investments also comprise housing loans to employees (measured at mortised cost using the effective interest method), investments in bonds and long-term deposits. Investments in bonds amounted to SIT 1,125,571 thousand at the end of the year. The average interest rate paid on long-term certificates of deposit maturing in 2007 was 5.5%.

8.2.4 Long-term operating receivables

Long-term operating receivables in the amount of SIT 82,302 thousand, which are derived from deferred taxes, are not disclosed under this category, as they were offset with long-term deferred tax liabilities.

8.2.5 Inventories

Inventories are recorded only by the subsidiary company Luka Koper Pristan d.o.o., which performs restaurant and hotel management activities. The company did not pledge any inventories as collateral for liabilities and did not write off any inventories. The value of inventories recognized as expense for the period amounted to SIT 1,399 thousand in 2005, compared to SIT 2,668 thousand in 2004.

8.2.6 Short-term operating receivables

	(In thousands of SIT)	2005	2004
b.	Short-term operating receivables	4,486,393	4,833,736
1.	Short-term accounts receivable	842,542	573,308
	Allowances	-71,212	-62,037
2.	Short-term accounts receivable from Group companies	0	0
3.	Short-term accounts receivable - foreign	1,267,572	1,196,461
4.	Advances given for operating current assets	128,272	751,331
5.	Short-term receivables from exporters	1,640,403	1,426,907
	Allowances	-19,603	-39,822
6.	Short-term receivables from interest	15,957	19,282
	Allowances	-2,572	-1,374
7.	Receivables from input VAT	304,919	613,598
8.	Other short-term receivables	373,932	344,793
9.	Receivables from taxes and excise taxes	2,183	11,289

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

The Luka Koper Group has no outstanding claims towards the members of the Management and Supervisory Boards. In most cases, allowances for receivables due over 365 days had already been recorded; that is in cases of doubtful receivables (bankruptcy, composition, etc.).

8.2.7 Short-term investments

	(In thousands of SIT)	2005	2004
III.	Short-term investments	10,556,785	8,398,387
1.	Short-term investments in Group companies	0	0
2.	Short-term investments in associated companies	0	0
3.	Short-term investments in others	10,442,936	8,307,895
	Allowance for investments	-113,849	-90,492

Short-term investments comprise placements in certificates of deposit of commercial banks and placements in bank deposits. The average interest rate for granted short-term loans was equal to 3.78%.

8.2.8 Deferred expenses and accrued revenues

(In thousands of SIT)	31 Dec 2005	31 Dec 2004
C. Deferred expenses and accrued revenues	18,827	27,187
Insurance premiums	10,782	12,788
Short-term deferred other costs	8,045	14,399

8.2.9 Off-balance sheet assets

Luka Koper Group discloses only off-balance sheet liabilities, explained under point 8.2.14.

8.2.10 Equity

		2005	2004
A.	**Equity**	**64,927,326**	**61,890,529**
	Equity - majority equity interests	64,647,429	61,683,109
I.	**Called-up capital**	**14,000,000**	**14,000,000**
1.	Share capital	14,000,000	14,000,000
II.	**Capital surplus**	**21,462,806**	**21,462,806**
III.	**Reserves from profit**	**20,095,489**	**20,296,585**
1.	Legal reserves	4,519,621	4,518,961
3.	Other reserves from profit	17,671,018	15,777,624
IV.	**Net profit from previous years**	**2,521,152**	**1,326,258**
V.	**Net profit for the current year**	**2,647,992**	**3,195,553**
VII.	**Revaluation surplus**	**1,824,840**	**1,401,907**
1.	Revaluation surplus	1,824,840	1,401,907
II.	Equity - minority equity interests	279,897	207,420
	Share capital	11,933	12,968
	Capital surplus	189	188
	Reserves from profit-legal	1,193	1,193
	Other reserves from profit	92,531	48,914
	Net profit or loss from previous years	95,488	42,687
	Net profit for the financial year	72,605	95,462
	Revaluation surplus	5,958	6,008

The share capital of Luka Koper, d.d. includes 14,000,000 shares with a nominal value of SIT 1,000 each. The total amount of outstanding shares is divided into 7,140,000 ordinary registered shares listed on the Ljubljana Stock Exchange, and 6,860,000 participating preferred shares owned exclusively by the Republic of Slovenia. Participating preferred shares have limited voting rights as well as a fixed and variable portion of the yield. Everything relating to the structure, movement and dividend policy of the Company is disclosed in the Company's business report.
Within the Group, legal reserves in the minimum amount of 10% of the share capital have been established by the parent company, Luka Koper INPO, d.o.o and Adria-Tow, d.o.o.. The subsidiary company Luka Koper Pristan d.o.o. has not yet recorded legal reserves in the amount of 10%. Intra-year changes in equity are disclosed on pages 114 and 115 of this report.

8.2.11 Provisions

		2005	2004
B.	Provisions	1,942,502	1,762,080
1.	Provisions for pensions and similar items	391,777	451,385
2.	Other provisions	345,505	204,368
3.	Long-term accrued expenses and deferred revenues	1,205,220	1,106,327

Provisions for pensions and similar items comprise long-term remunerations to the employees of Luka Koper, d.d. and the subsidiary company Luka Koper INPO, d.o.o.. This category also includes jubilee awards and retirement compensation. Liability is recognized in the amount of the present value of future disbursements. Retirement compensation paid out upon retirement and jubilee awards granted in 2005 decreased the provision established in 2004. Actuary calculations will be performed every second year and will serve as a basis for determining the amount of provisions.

In 2005 we formed provisions for damages in the amount of SIT 103,743 thousand and provisions for the purchase of an insurance period in the amount of SIT 37,500 thousand.

Deferred revenues from fixed assets acquired free of charge in Luka Koper, d.d. are disclosed under the long-term accrued expenses and deferred revenues item in the amount of SIT 60,576 thousand. Retained employee contributions in the amount of SIT 1,143,920 thousand form the long-term accrued expenses and deferred revenues item in the subsidiary disability company Luka Koper INPO, d.o.o.. The assigned funds have a specific purpose and are mostly used for covering the costs of depreciation of fixed assets.

8.2.12 Financial and operating liabilities

	(In thousands of SIT)	2005	2004
C.	Financial and operating liabilities	12,255,234	13,140,244
a.	**Long-term financial liabilities**	**8,253,187**	**3,944,349**
1.	Long-term financial liabilities to banks	8,253,187	3,944,349
b.	**Long-term operating liabilities**	**443,803**	**384,271**
1.	Long-term operating liabilities	15,484	24,753
2.	Deferred liabilities for deferred taxes	428,319	359,518
c.	**Short-term financial liabilities**	**367,799**	**4,280,366**
1.	Short-term financial liabilities to banks	251,295	4,028,206
2.	Short-term financial liabilities to Group companies	0	0
3.	Short-term financial liabilities to associated companies	116,504	248,355
4.	Short-term financial liabilities to others		3,805
d.	**Short-term operating liabilities**	**3,190,122**	**4,531,258**
1.	Short-term operating liabilities for advances	2,853	262,958
2.	Short-term operating liabilities to suppliers	1,278,599	2,156,727
4.	Short-term operating liabilities to Group companies	0	0
5.	Short-term operating liabilities to associated companies	0	0
6.	Short-term operating liabilities to others	829,665	1,408,235
7.	Liabilities for corporate income taxes	1,079,005	703,338

We did not change our policy regarding the disclosure of short-term operating liabilities for advances, which were very small in 2005 in comparison to 2004. This was a one-time event comprising a temporary payment for the purchase of fixed assets during the construction of the northern bypass road.

8.2.12.1 Long-term financial liabilities

Long-term liabilities include received long-term bank loans. The average interest rate for these loans, denominated in Euros, is EURIBOR + 0.60%, whereas for loans denominated in US dollars the average rate is LIBOR + 0.70%. The repayment period of the loan in the amount of EUR 8.3 million due for repayment on 31 January 2006 was extended to 28 February 2007 and was thus not transferred to short-tem liabilities.

8.2.12.2 Long-term operating liabilities

Long-term operating liabilities include long-term collaterals received for rented business premises and deferred liabilities for deferred taxes.

Deferred liabilities for deferred taxes, which are derived from decreased profit brought forward from the transition to IFRS and liabilities for deferred taxes, which are derived from the valuation of investments at fair value and disclosed as a separate item under equity, were offset and are disclosed in the amount of SIT 510,612 thousand as liabilities for deferred taxes from the transition to IFRS. Deferred liabilities for deferred taxes were also offset with the determined deferred tax receivables in the amount of SIT 82,302 thousand, which represents the amount of corporate income tax that will be reimbursed in future periods according to assessed temporary taxable differences. Deferred taxes were measured according to the applicable tax rate as at the balance sheet date, which was equal to 25%. Net liabilities for deferred taxes amounted to SIT 428,319 thousand.

8.2.12.3 Short-term financial liabilities

The short-term financial liabilities disclosed in 2005 are significantly lower than those disclosed in 2004. A bank loan was no longer disclosed under short-term loans, as it was converted in its entirety into a long-term loan maturing in February 2007. Luka Koper, d.d. withdrew all its loan agreements with its subsidiaries due to the changed financing policy of the parent company. Consequently, subsidiaries placed their surplus cash in bank deposits.
A loan in the amount of EUR 8.3 million maturing on 31 January 2006 was extended until 28 February 2007 and was therefore not transferred to short-term liabilities.

8.2.12.4 Short-term operating liabilities

Short-term operating liabilities to suppliers, which amounted to SIT 1,278,599 thousand, decreased in comparison to 2004. However, corporate income tax liabilities increased and amounted to SIT 1,079,005 thousand, compared to SIT 703,338 thousand in 2004.

8.2.13 Accrued expenses and deferred revenues

(In thousands of SIT)	31 Dec 2005	31 Dec 2004
D. Accrued expenses and deferred revenues	226,070	232,355
Demurrage	5,035	14,099
Foreign commercial discounts	54,187	67,311
Accrued costs	160,673	150,945
Short-term deferred revenues	175	0

8.2.14 Off-balance sheet liabilities

Contingent liabilities are disclosed under off-balance sheet items of Luka Koper, d.d. and its subsidiary company Adria-Tow, d.o.o.. Luka Koper d.d. disclosed a balance of SIT 1,807,966 thousand as at 31 December 2005 (the balance as at 31 December 2004 amounted to SIT 3,440,541 thousand). Contingent liabilities comprise:

- a guarantee issued for a loan to Adria-Tow, d.o.o. in the amount of SIT 428,185 thousand and to Adriafin d.o.o. in the amount of SIT 236,281 thousand;
- guarantees issued to others - the Ministry of Finance in the amount of SIT 320,000 thousand and the Thermal Power Plant Ljubljana in the amount of SIT 62,098 thousand;
- letters of credit issued to suppliers Konecranes VLC Corporation in the amount of SIT 54,240 thousand and Dificon Valves GmbH in the amount of SIT 7,972 thousand;
- short-term deposits pledged for a loan received by Luka Koper, d.d. from Banka Koper in the amount of SIT 500,000 thousand.

Receivables and liabilities from Centroprom Beograd in the amount of SIT 199,190 thousand are also recorded under off-balance sheet items.

Adria-Tow pledged a fixed asset (a tugboat) in 2005 in the amount of SIT 428,185 thousand as a guarantee to the parent company Luka Koper, d.d., whereas in 2004 the same item was recorded in the amount of SIT 757,844 thousand.

8.3 Disclosures in the Cash Flow Statement

8.3.1 Cash flows from operating activities

Cash flows received from operating activities increased by SIT 841,652 thousand in comparison to 2004 due to the increase in operating revenues and the decrease in the effects of changes in the net operating current assets.

8.3.2 Cash flows from investing activities

Cash flows received from investing activities comprise received interest, dividends and shares in profits, reduced by unrealized financial revenues from the revaluation of receivables and liabilities. These cash inflows decreased by SIT 5,028,582 thousand in comparison to 2004 due to the significant reduction of sold capital investments, where we realized significant capital gains in 2004, and the reduction of financial investments in bank deposits, where we received a significantly lower interest.

Cash outflows from investing activities, required for the acquisition of fixed assets and financial investments, decreased in comparison to 2004 by SIT 4,782,877 thousand. A significant reduction was attained in cash outflows for the acquisition of tangible fixed assets. Likewise, we allocated SIT 1.3 billion less funds to financial investments in 2005.

8.3.3 Funds flows from financing activities

Cash flows received from financing activities comprise long-term loans received, which increased in comparison to 2004 by SIT 1,655,251 thousand. The reason for this increase is the increased volume of financing of business operations with bank loans, as we intentionally increased the share of borrowing in accordance with the corporate policy, which was mostly the result of prevailing money market conditions and favourable borrowing terms.

Cash outflows from financing activities were the result of repayments of short-term financial liabilities and the payment of dividends of Luka Koper, d.d. according to a resolution adopted by the General Meeting of Shareholders in July 2005. Cash outflows increased by SIT 2,177,632 thousand in comparison to 2004 due to the repayment of matured short-term bank loans.

8.4 Disclosures in the Statement of Changes in Equity

8.4.1 Transfers to equity

The equity increased by the amount of net profit of the Luka Koper Group for 2005, which was equal to SIT 4,742,482 thousand, and the surplus from the revaluation of financial investments measured at fair value in the amount of SIT 422,933 thousand.

8.4.2 Transfers within equity

Transfers within equity occurred due to the allocation of one half of the net profit of Luka Koper, d.d. for 2005, according to a resolution of the Management Board, in the amount of SIT 2,094,490 thousand to other revenue reserves, and due to the transfer of SIT 660 thousand to legal reserves.

Profit from 2004 was transferred to other revenues reserves by the resolution of the General Meeting, while the remainder was left unallocated.

8.4.3 Transfers from equity

Transfers from equity disclose a decrease in other reserves from profit in the amount of SIT 2,201,096 as the result of dividend payments to shareholders.

9. Relations of the Parent Company with Subsidiaries and Associates and Relations between Subsidiary Companies

Parent company to subsidiary companies and subsidiary companies among themselves (In thousands of SIT)	31 Dec 2005	31 Dec 2004
Long-term investments	1,650,344	1,370,610
Receivables	86,088	64,651
Short-term account receivables	86,088	64,651
Short-term receivables from interest	0	0
Short-term investments	10,734	1,046,961
Liabilities	96,822	1,111,612
Short-term operating liabilities	86,088	64,651
Short-term financial liabilities	10,734	1,046,961
Revenues	744,873	530,771
Operating revenues	712,050	488,893
Financing revenues	32,823	41,878
Costs and expenses	744,873	530,771
Costs of material	24,378	19,718
Costs of services	614,110	452,774
Labour costs	11,557	13,543
Other costs	62,005	2,858
Financing expenses	32,823	41,878

Offset of long-term investments of the parent company with the equity of subsidiary companies

The equity method is used for consolidation of the parent company's investments and the equity of subsidiary companies. The parent company's investments in the Group companies were offset in the amount of SIT 1,650,344 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 among subsidiary companies have been offset in the consolidated balance sheet as follows:
- short-term operating receivables (collectively SIT 86,088 thousand) and short-term operating liabilities (collectively SIT 86,088 thousand) on both sides;
- short-term investments (collectively SIT 10,734 thousand) and short-term financial liabilities (collectively SIT 10,734 thousand) on both sides.

Equity

After the executed offset between the long-term investments of the parent company and the equity of subsidiary companies, the summed-up equity of the Group equals, in proportion to the parent company's share in these companies, the sum of the equity of the majority owner and the equity of minority owners in the company Adria-Tow, d.o.o.. The total equity of the Group amounts to SIT 64,927,326 thousand.
The equity is thus composed of the following items:

1. Majority owner	SIT 64,647,429 thousand
2. Minority owner	SIT 279,897 thousand

Offset of revenues and expenses

All revenues and expenses between subsidiary companies, and between the subsidiary companies and the parent company, are offset in the consolidated income statement.
Offset operating revenues amounted to SIT 712,050 thousand and offset financial expenses amounted to SIT 32,823 thousand.

Value of transactions and balances of outstanding liabilities and receivables between the parent company and associated companies:

(In thousands of SIT)	Adriafin d.o.o.		Actual I.T., d.o.o.		Avtoservis Koper d.o.o.		Intereuropa d.d.	
Turnover for the period	2005	2004	2005	2004	2005	2004	2005	2004
Parent company's services used	323	3,211	80,641	88,341	38,303	37,975	3,365,088	3,052,024
Parent company's lease services used	0	0	4,473	7,845	28,634	19,601	19,530	39,799
Services performed for the parent company	0	0	593,350	549,230	3,161	9,269	79,213	57,656
Lease services performed for the parent company	0	0	0	0	0	0	35,946	30,160
Interest for loan extended to parent company	5,835	6,151	0	0	0	0	0	0

(In thousands of SIT)	Adriafin d.o.o.		Actual I.T., d.o.o.		Avtoservis Koper d.o.o.		Intereuropa d.d	
Balance as at	31 Dec 05	31 Dec 04	31 Dec 05	31 Dec 04	31 Dec 05	31 Dec 04	31 Dec 05	31 Dec 04
Outstanding receivables for services performed by the parent company	322	322	15,331	14,884	3,964	2,976	534,373	468,839
Outstanding liabilities for services used by the parent company	0	0	122,734	107,323	680	268	5,803	53,878
Loan granted to the parent company	116,504	248,355	0	0	0	0	0	0

By resolution of the Management Board of Luka Koper, d.d., the following persons have been appointed to the governing bodies of the following subsidiary companies:

1. Luka Koper INPO, d.o.o.: Pavle Krumenaker as Chairman of the General Meeting and Mirko Pavšič as member of the General Meeting.
2. Luka Koper Pristan d.o.o.: Marjan Babič as Chairman of the General Meeting and Mirko Pavšič as member of the General Meeting.
3. Adria-Tow, d.o.o.: Aldo Babič as Chairman of the General Meeting and Mirko Pavšič as member of the General Meeting.
4. Luka Kopar Beograd d.o.o.: Mirko Pavšič as Chairman of the General Meeting.

The following persons have been appointed to the governing bodies of associated companies:

1. Avtoservis Koper d.o.o.: Aldo Babič as Chairman of the General Meeting and Mirko Pavšič as member of the General Meeting.
2. Actual I.T., d.o.o.: Metka Sušec Praček as member of the Supervisory Board.
3. The authorised representatives of Luka Koper, d.d. participate in the general meetings of the associated companies Adriafin d.o.o., Golf Istra d.o.o. and Kopinvest Netherlands BV.

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

The contractual relationship with the Republic of Slovenia remains regulated by a lease agreement for operational shores and land owned by the Republic of Slovenia in the Port of Koper, which was concluded in 2000. In accordance with this agreement, lease costs amounted to SIT 224,459 thousand in 2005 and SIT 210,935 thousand in 2004 (SIT 20 per ton of handled goods, excluding handled oil derivatives). The Company allocated SIT 385 million for investments in port infrastructure in comparison with SIT 1,032 million in 2004.

Since a concession agreement for the management, development and regular maintenance of port infrastructure in the cargo Port of Koper has not yet been concluded, Luka Koper, d.d. still uses the operational shores and land owned by the Republic of Slovenia in the Port of Koper on the basis of the lease agreement from 2000.

We have established a port infrastructure department and thus adapted our internal organisation to the foreseen changes. The department manages port infrastructure assets that are owned by the joint stock company, and also provides for the regular maintenance of buildings intended for safe navigation, safe mooring and the undisturbed execution of port activities (buildings in the public domain owned by the State).
The established organisational structure and accounting system will enable the Company, on the basis of the concession agreement, to prepare financial statements and reporting in accordance with the provisions of accounting standards.

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

Port infrastructure	2005	2004
Revenues from services sold in the domestic market	122,797	132,986
Revenues from services sold in foreign markets	998,067	921,042
Revaluatory operating revenues	122,580	
Operating revenues	1,243,444	1,054,028
II. Operating costs	1,426,462	1,200,437
Costs of material	32,380	16,866
Costs of services	575,846	601,540
Allowances	544,845	537,249
Labour costs	41,681	44,347
Other costs	231,710	435
III. Operating result - loss	-183,018	-146,410

11. Post-balance Sheet Events

- Investment in a new wheel loader (20 tons) valued at SIT 130 million was approved in January 2006. This new asset will be used to replace the existing worn-out asset.
- The Municipality of Koper sold its 3.3% stake (461,538 shares) in Luka Koper to the Slovene Restitution Fund (SOD) in February 2006. Consequently, the ownership structure of Luka Koper has changed and the Municipality of Koper now holds 3.33% ownership stake and the Slovene Restitution Fund holds an 11.13% ownership stake in Luka Koper, d.d..
- The Company extended a guarantee in January 2006 in the amount of SIT 500 million for the purpose of extending a long-term credit facility granted by Banka Koper.
- Likewise, the Company provided a guarantee for a loan raised by the associated company Adria-Tow, d.o.o. in the amount of SIT 407 million.

12. Statement of Distributable Profit

Luka Koper, d.d.

In 2005, the parent company Luka Koper, d.d. realized a net profit of SIT 4,188,981 thousand. 50% of the net profit from 2005 in the amount of SIT 2,094,490 thousand was allocated by the Management Board and the Supervisory Board to the increase of other reserves from profit. The remaining portion of the net profit for 2005 was allocated to distributable profit. The distributable profit has been further increased by the profit brought forward from 2004 in the amount of SIT 1,585,557 thousand SIT. In addition, a portion of other reserves from profit from previous years in the amount of SIT 2,308,196 thousand was also allocated to distributable profit.

The total distributable profit for the year 2005 thus amounts to SIT 5,988,244 thousand.

(In thousands of SIT)	2005	2004
Total distributable profit	5,988,244	5,786,653
Other reserves from profit	2,308,196	2,201,096
Net profit for the current year	2,094,490	2,090,796
Net profit brought forward (2004, 2003)	1,585,557	1,494,761

The General Meeting of Shareholders shall decide on the distribution of profit for the year 2005 in the amount of SIT 5,988,244 thousand 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 2,308,196 thousand shall be allocated to shareholders from other reserves from profit established on the basis of equity items from previous years;
- a portion of the distributable profit in the amount of SIT 2,000,000 thousand shall be allocated to other reserves from profit, namely, the net profit brought forward from 2004 in the amount of SIT 1,585,557 thousand and the net profit from 2005 in the amount of SIT 414,443 thousand;
- the allocation of the remaining portion of distributable profit (net profit for the financial year) in the amount of SIT 1,680,047 thousand shall be decided in upcoming business years.

Luka Koper INPO, d.o.o.

The company created a net profit in the amount of SIT 198,038 thousand in 2005. The profit brought forward from previous years amounted to SIT 48,329 and, together with the net profit, forms the distributable profit. The general meeting to be held in 2006 will decide on the allocation of distributable profit in the amount of SIT 246,367 thousand.

13. Statement of Responsibility of the Management

Luka Koper Pristan d.o.o.

The company realized SIT 13,203 thousand of net profit. The company's director allocated 5% of the company's net profit in the amount of SIT 660 thousand to legal reserves, as the company has not yet recorded legally prescribed legal reserves in the amount of 10%.

The general meeting to be held in 2006 will decide on the appropriation of the remaining portion of the profit.

Adria-Tow, d.o.o.

Adria-Tow, d.o.o. recorded SIT 145,209 thousand of net profit. The company still has SIT 190,975 thousand of unallocated profit from previous years. The general meeting to be held in 2006 will decide on the allocation of distributable profit in the amount of SIT 336,184 thousand.

Robert Časar
Chairman of the Management Board

Marjan Babič
Deputy Chairman of the Management Board

Neda Ritoša
Head of Accounting Department

The Management of Luka Koper d.d. hereby fully confirms the consolidated financial statements disclosed in this Annual Report and the accompanying notes presented on pages 116 to 151.

Koper, 16 February 2006

Robert Časar
Chairman of the Management Board

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Uniting All Our Advantages

Organized hustle and bustle, that's how one could describe the atmosphere in the Port of Koper and in these pages. And where are the containers from the photo at this moment? That's right, the next morning they were forwarded to Germany. And the marine? On the same day he set off on a journey back to the Far East. It's dynamic. New faces are arriving and living with the port and discovering all the advantages of this environment.

Text: Luka Koper, Studio Kernel, **Production**: Studio Kernel, **Design**: Andreja Martinc,
Photos: Mitja Božič, **Translation**: Suzana Stančič, Tomaž Lavrič, **Printing**: Čukgraf d.o.o.,
Production year: 2006

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is also available on the website www.luka-kp.si.