ANNUAL REPORT | 2010

LUKA KOPER
Port of Koper

ANNUAL REPORT | **2010**

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INTRODUCTION

BUSINESS REPORT

SUSTAINABLE DEVELOPMENT

We are what we do – growth.

Growth dictates change and change triggers development. The development of Luka Koper is no longer a once in a generation occurrence; it has now become a habit. We draw on our environment for strength, determination and endurance.

INTRODUCTION

OPERATIONAL HIGHLIGHTS OF THE LUKA KOPER GROUP

The market in which we operate is extremely dynamic and this was also the case in 2010. Our determination to succeed and our motivated, professional workforce have been the driving force behind good results for 2010.

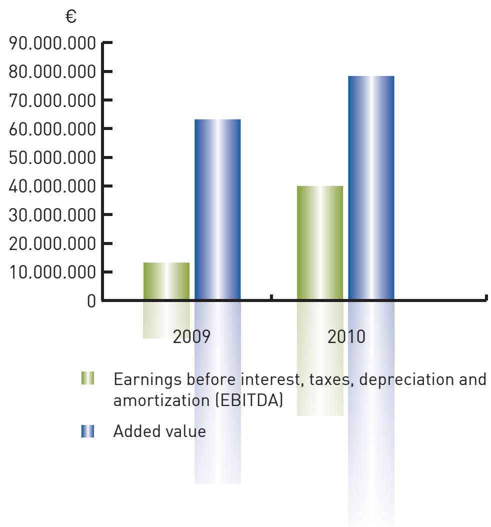
Financial indicators

	2009 €	2010 €	Index 2010/2009
Income statement			
Operating revenues	116,124,640	127,738,666	110
Operating profit (EBIT)	(8,178,700)	14,193,939	—
Earnings before interest, taxes, depreciation and amortization (EBITDA)	(13,919,625)	40,462,737	291
Financial result	(63,993,515)	(17,495,591)	27
Total profit/loss	(72,172,215)	(3,301,652)	5
Net profit/loss	(66,602,514)	(2,903,652)	4
Balance sheet (as at 31 December)			
Assets	531,672,019	502,345,304	94
Long-term assets	505,003,934	459,124,856	91
Short-term assets	26,668,086	43,220,449	162
Equity	247,410,497	244,056,503	99
Long-term sources*	166,936,750	173,829,649	104
Short-term sources	117,324,774	84,459,152	72
Financial liabilities	234,538,592	226,269,650	96
Cash flow statement			
Investment in intangible, tangible assets and investment property	112,589,526	20,157,813	18
(In percent)	%	%	
Return on sales (ROS)	(7.0)	11.1	—
Return on equity (ROE)	(23.9)	(1.2)	5
Return on assets (ROA)	(12.2)	(0.6)	5
EBITDA margin	11.9	31.7	266
Financial liabilities/equity	94.8	92.7	98

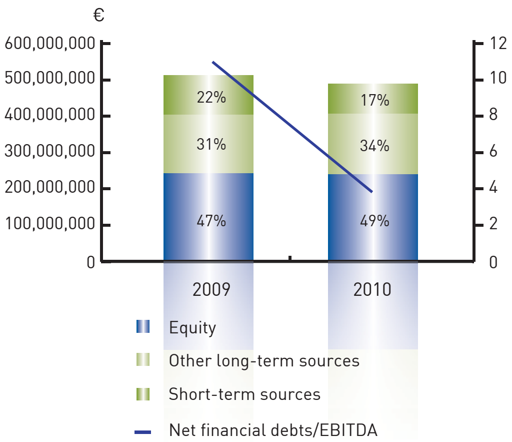
* In 2009, Luka Koper, d. d. failed to comply with certain loan covenants which it had determined in long-term contracts, primarily due to investment impairment. Therefore, the Company transferred €105m from long-term to short-term financial liabilities in accordance with IAS 1.65. Financial liabilities as at 31 December 2010 are shown at the original maturity structure; therefore, in 2010 we transferred the previously transferred part back to the long-term financial liabilities. In 2010 we complied with all the covenants under the loan contracts with exception of that relating to a long-term loan of €5.8m which is due to investment impairment.

The economic classes that reflect the performance of our core categories show an increase for 2010, primarily as a result of increased maritime throughput. Compared with 2009, EBITDA (earnings before interest, taxes, depreciation and amortisation) increased by €26.5m in 2010, and by €3.1m according to the forecast 2010 value. Added value (operating profit before write-downs and labour costs) increased by €14.2m in comparison to the previous year, and by €2.8m according to the plan.

EBITDA and added value

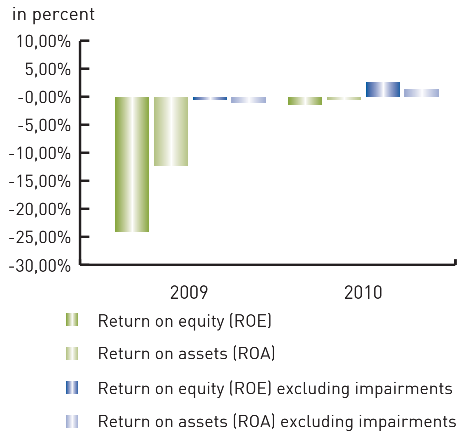


Liabilities and net financial debts/ EBITDA



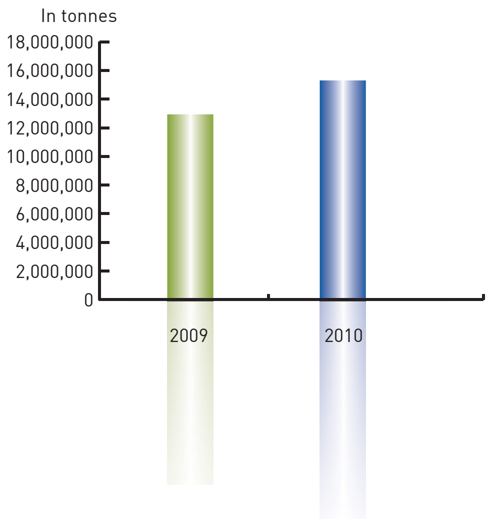
The equity of the Luka Koper Group totals €244.1m and constitutes 49% of the balance sheet, thereby safeguarding financial safety.

Return on equity (ROE) and return on assets (ROA)



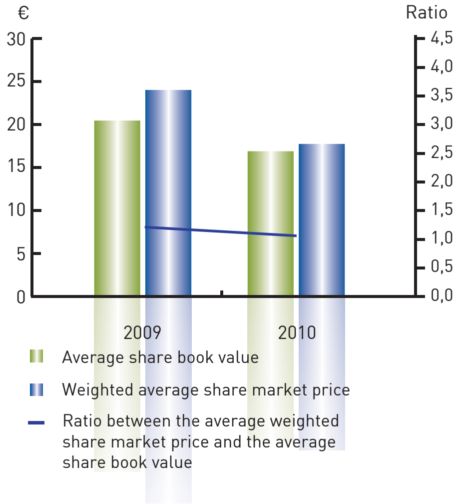
In 2010 the return on equity (ROE) and return on assets (ROA) percentages remained negative due to investment impairments and adjustments. The net profit/loss in 2010 less investment impairments and adjustments would amount to €7.3m, ROE to 2.9% and ROA to 1.4%.

Maritime throughput in tonnes



We concluded 2010 with a throughput of 15.4 million tonnes, exceeding the previous year by 17% and the forecast quantities by 7%.

The share



BUSINESS DEVELOPMENT STRATEGY

The business development strategy is based on the competitive advantages of the Luka Koper Group and a firm belief that we work well and with passion. We set ourselves ambitious goals, pursue them effectively and succeed in meeting most. By realising the development guidelines of the competitive advantage, we strengthen and maintain a respectful position among our stakeholders.

Vision, mission and strategic orientations of the Luka Koper Group for the period 2006–2015

VISION	Luka Koper - the leading port and logistic system servicing Central and Estern Europe
MISSION	To make its port and logistics services the best way to establish business ties on the shortest route to the heart of Europe.
STRATEGIC ORIENTATIONS	**Recognised logistics service provider** We manage the links in the transport chain. **Efficient port system and distribution centre** We generate added value through technologically optimised process and diverse product groups. **Successful Group of companies in the long run** We develop modern and and harmonius operations, boosting return and guarenteeing asset value growth. **Ensuring sustainable development** We maintain the balance in relations with the corporate, natural and institutional environments, and other stakeholders.

By means of fundemental VALUES: KNOWLEDGE, AMBITION, PARTNERSHIP, RESPECT AND RESPONSIBILITY, we achieve our goals through the use of deliberate STRATEGIES APPLIED TO KEY BUSINESS AREAS:				
Marketing and development of the product range	**Infrastructual and technological development**	**Organisation, internal processes and human resouce development**	**Financial asset management**	**Institutional, natural and social environments**

Read more about the development strategy for the period 2006 to 2015 on our website: www.luka-kp.si (About the Company).

Through our strategic focus, we aspire to be the leading player in port, logistics, business and institutional systems, coordinating them successfully and efficiently, thereby improving our competitive position as a result.

System	Role	Objective
Port system	Core activity holder	Increase port transport
Logistics system	Coordinator of supporting activities	Efficient operation of the Port community and logistics chain business network
Business system	Successful company	Satisfactory economic and financial results
Institutional system	Port leader	Well-arranged and internationally recognised port

In 2010, expert foundations were prepared for a five-year port development, which in particular announces our expectations regarding infrastructural development. At this point it should be pointed out that the growth and development of port activity are strongly dependent on investments made in public infrastructure outside the Port to enhance accessibility. We are therefore aware that proactive cooperation at national level is of the utmost importance.

In 2010, we commenced the revision our business strategy for the period ending 2015, which will be focused on marketing, corporate and institutional objectives. The strategy is due to be finalised in 2011.

Realisation of plans, strategic objectives and orientations

The vision of the Company is focused on becoming the leading port and logistics system for Central and Eastern Europe. We have successfully achieved an increase in throughput, exceeding the planned 15 million tonnes, and made an important contribution to the improvement of the container throughput structure, and to a reduction in the share of bulk cargoes. By means of the throughput of all types of goods, we have maintained the Port's versatility, thereby mitigating operational risks and improving efficiency. We paid special attention to the issue of sustainable development.

Furthermore, we paid particular attention to the new strategies which were adopted in the second half of 2009, a time when internal Company relations and the external business environment substantially changed, a consequence of significant macroeconomic impacts and the global economic crisis; the crisis also had a significant adverse effect on international and ocean trade. Therefore, in 2010 we strengthened performance through the implementation of specific strategic measures:

- **To strengthen the Port system** and its efficiency,
- To establish a **logistics system to support** the Port;
- To rationalize new investments in accordance with their potential profitability and liquidity harmonisation;
- To re-establish the strong market position in order to encourage new business and increase maritime throughput;
- To foster a more discriminatory approach to investment selection and implementation, only selecting those investments necessary for the core activities of the Port;
- To develop a systematic investment policy approach: comprehensive control over investments, their status and a disinvestment plan;
- **To develop an institutional system**, providing support to the local community's social activities and to represent the Port's interests at national level, as well as to continue to integrate the Port into the Adriatic, European and international networks;
- To restructure the internal **business system** with an emphasis on process efficiency and productivity;
- To promote a highly professional, reliable and creative organisational culture;
- To sustain the Port's excellent corporate reputation and enviable tradition.

The national spatial plan

The comprehensive National Spatial Plan of Luka Koper for international transport was coordinated, with all comments provided, by the spatial arrangement holders. As a party to the procedure, Italy joined during last phase in August as a result of the impact assessment in a cross-border context. After the opinion of the Italian side has been received, the Slovenian government will also discuss the National Spatial Plan; we therefore expect this to be adopted in the first half of 2011.

BUSINESS OBJECTIVES FOR 2011

In light of the current economic conditions, the 2011 business plan of the Luka Koper Group is ambitious. The planned operating profit and net profit/loss are still relatively low in terms of achieving the Group's basic objective, i.e. to increase the share price of Luka Koper, d. d., and the Group.
The main reasons for this can be found in the parent company's historical financial burden, which is particularly evident in Luka Koper, d. d.'s high level of debt and the provisions of the Concession Agreement, which impose significant obligations on the Company regarding the concession fee as well as responsibility for investing in public port infrastructure. In accordance with the provisions of the Concession Agreement, the financing of public port infrastructure is in the concessionaire's domain, i.e. that of Luka Koper, d. d.

Projected operating performance of the Luka Koper Group for 2011

	2010	2011	INDEX 2011/ 2010
Operating revenue	€127,738,666	€132,160,519	103
Operating profit (EBIT)	€14,193,939	€15,419,253	109
Net profit/loss	€(2,903,652)	€7,602,680	—
Return on sales (ROS)	11.1%	11.7%	105
Earnings before interest, taxes, amortization and depreciation (EBITDA)	€40,462,737	€42,758,085	106
EBITDA margin	31.7%	32.4%	102
Added value	€78,561,913	€78,994,058	101
Investment in intangible, tangible assets and investment property	€20,157,813	€32,360,089	161
Maritime throughput (tonnes)	15,372,045	16,457,236	107
Number of employees	997	974	98
	31.12.2010	**31.12.2011**	**INDEX 2011/ 2010**
Return on equity (ROE)	(1.2)%	3.0%	—
Capital to total assets ratio	48.6%	50.2%	103
Financial liabilities	€226,269,650	€218,211,025	96
Financial liabilities/equity	92.7%	81.9%	88
Financial and operating liabilities/equity	100.3%	90.4%	90
Net financial debts/EBITDA	4.1	3.5	85

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

Largest container port in the Northern Adriatic

Global ports compare themselves in terms of throughput and the previous year was a success for Luka Koper. We exceeded the forecast target of 15 million tonnes and significantly contributed to an improvement in the structure of container traffic. Last year, we made a noteworthy breakthrough regarding the container terminal, surpassing the historical record of 400,000 container units, thereby becoming the largest container terminal in the northern Adriatic. We acquired a new container line in 2010, the second such line, which connects Koper directly with the Far East.

Among the important events of the previous year, we should also mention the completion of the alcohol terminal, the huge success of the passenger terminal and the acquisition of the EMAS environmental certificate, an upgraded version of the already established ISO 14001 environmental management system. Less pleasant themes also came to the fore, such as the public sector strike which hindered work at the Port to a considerable degree and the filing of claims for damages against the previous Management and Supervisory Boards. Past business transactions were again responsible for the poorer business results of the Group. The reason for this was impairment to those investments which had not been divested in the previous year. Without taking into account these impairments and value readjustments, net profit would have reached €7.3m. At any rate, operations improved as demonstrated by the operating profit which amounted to €14.2m last year and operating profit before amortization, which increased by €26.5m (from €13.9m in 2009 to €40.4m in 2010). The latter is particularly important since we will be able to draw on these funds to finance continued investments amounting to €32.3m this year.

In light of the current economic circumstances, the business plan of the Group is ambitious. Planned operating profit (€15.4m) and net income for the period (€7.6m) remain relatively low from the aspect of realising the basic objective of the Group, namely to increase the value of the parent company and the Group. The reasons for this are the operating burdens of the parent company, inherited from the past. This is particularly evident in the high costs of amortization, the high level of debt and the provisions of the concession contract, which represent a significant obligation on the Company, both from the aspect of concession fees, as well as from the aspect of financial liability obligations to invest in public port infrastructure.

In accordance with the concession contract, which is in force until 2043, we sent the Government of the Republic of Slovenia an expert framework for the five-year development of the Port regarding our expectations in connection with the necessary infrastructural development. Here we should recall that the growth and development of Port activities are also highly dependent on investments in public infrastructure outside the Port, to ensure accessibility. A second railway track and the modernisation of the existing railway track is at the forefront of our thoughts. We also began preparations for a new company business strategy in 2010, which would cover marketing, corporate and institutional objectives comprehensively. The strategy is due to be finalised this year.

Particular attention was paid to corporate social responsibility and sustainable development. We are aware of the responsibility of the Group to the local environment and therefore look to nurture a long-term partnership in this respect. The national spatial plan for the comprehensive spatial-planning arrangement of the Port for international transport in Koper also forms a significant part of this partnership. The plan reconciled all the concerns of the spatial planning holders and successfully negotiated all the envisaged legal procedures. The Group has already invested €3m in the preparation process for the national spatial plan and this has been dragging on since 2006. Therefore, we expect the Government to fulfil their promise and adopt the spatial plan this year.

Gregor Veselko, D.Sc.
Chairman of the Management Board

REPORT OF THE SUPERVISORY BOARD FOR 2010

The Supervisory Board continuously monitored and supervised the work of the Management Board in 2010. It concurrently acquainted itself with the implementation of the Business Plan for 2010 and the strategic orientation of the Company. It supported the realisation of valid strategic and business objectives through its resolutions and decisions. The Supervisory Board obtained all the information required from the Management Board concerning the current operations of the Company.

Composition of the Supervisory Board

No essential changes were made to the composition of the Supervisory Board in 2010. On 21 October 2010, Member of the Supervisory Board Boris Popovič submitted a request to be discharged from his position. The eight Members of the Supervisory Board in place as of this date still ensures a quorum.

Cooperation with the Management Board of the Company

The Supervisory Board cooperated with the Management Board and were informed of the results of the latter's work on a constant basis. The Management Board notified the Supervisory Board of business results and key plans and decisions in a timely manner and obtained consent for the conclusion of transactions exceeding 5% of the share capital. The Management Board also acquired the consent of the Supervisory Board for any investments made, procurements and the divesture of fixed assets exceeding a value of €400,000.

The Supervisory Board assesses its level of cooperation with the Management Board as being good. The Chairman of the Supervisory Board also cooperated with the Management Board within the scope of his competence during the periods between Supervisory Board sessions.

Sessions and work of the Supervisory Board

The Supervisory Board met at nine regular and ten correspondence sessions in 2010. A great deal of attention was focused on the financial position of the Company and the related acquisition of new financing and current investment sources. A portion of its activities also focused on monitoring the progress of the establishment of the Slovenian logistics holding.

The Supervisory Board participated at the majority of its sessions with a full turnout, with none of its Members absent on a regular basis. The sessions were attended by the Chairman of the Supervisory Board and the remaining Members, and by expert company colleagues who, in lieu of the content of the daily agendas, provided any additional explanations and information necessary to reach decisions.

The Supervisory Board assesses its work undertaken in 2010 as being positive. All Members actively participated in and monitored the realisation of adopted resolutions. They were well-prepared at the sessions and obtained all the additional information required for treatment of topics. The composition and organisation of the Supervisory Board facilitated the effective implementation of the supervisory function.

The Management Board acquainted the Supervisory Board with quarterly business reports, and provided explanations and responses to Members' questions on a quarterly, semi-annual and bi-monthly basis.
At its first correspondence session, the Supervisory Board requested the Management Board convene the 17th General Meeting of the Company as soon as it had obtained the final Report of the Special Audit of PriceWaterhouseCoopers, d. o. o., the auditors selected to carry out the special audit of Luka Koper, d. d.
At its regular session held on 26 February, the Supervisory Board was acquainted with the unaudited consolidated and non-consolidated financial statements for 2009. It was also made aware of the business plans of the subsidiary companies for 2010 and the Supplemental Report on the Special Audit of Luka Koper, d. d. to the Audit Report of Luka Koper, d. d., dated 5 February 2010. The Supervisory Board received the latter from PriceWaterhouseCoopers, d. o. o. on 10 December 2009.
At its session held on 1 April, the Supervisory Board approved the proposal of the Management Board to conclude a loan agreement with the Slovene Export and Development Bank in the amount of €30m, with a repayment period of 15 years. It was also brought up to speed with the acquisition of a 100% ownership share in Adria Terminali d. o. o. and the withdrawal of the Romanian company, Trade Trans Terminal S.r.l., from the ownership of Luka Koper, d. d.
At the end of April, the Supervisory Board approved the Annual Report of the Luka Koper Group and Luka Koper, d. d. for 2009 and was informed of the decision of the Management Board regarding covering net loss for 2009. The Supervisory Board Members were also then informed of the Report on the Special Audit of Luka Koper, d. d. and discussed the segmentation of financial investments, as proposed by the Management Board, and the future orientation for managing financial investments.
In August the Supervisory Board approved an investment of €1.82m for the reconstruction and excavation of the seabed at the passenger and general cargo terminals.

In connection with the special audit of the Company, the Supervisory Board was acquainted with the realisation of resolutions nos. 15, 17 and 18 of the General Meeting and instructed the Management Board to examine the existence of damage claim elements within six months of the General Meeting. The Management Board was required to file a lawsuit against the management and/or supervisory bodies for reimbursement of damages in connection to the actions taken by the management regarding individual company transactions which were damaging to the Company owing to violations of the responsibility of management and/or supervisory bodies. The lawsuit concerned violations connected to the transactions denoted in resolution no. 4, adopted at the General Meeting of 20 March 2009. The Management Board were also required to ensure that the appointed law firm drafted the text for the two lawsuits. The lawsuits were filed with the competent court within the legally prescribed deadlines.

The Supervisory Board also discussed and approved the procedure for refinancing matured credit lines with the most favourable banks in the amount of €35m.

Similarly, it also carefully monitored activities linked to the establishment of the Slovenian logistics holding which would merge Slovenske železnice, d. d., Luka Koper, d. d. and Intereuropa, d. d. On the basis of the materials presented, discussions and other facts available to date, the Supervisory and Management Boards of the Company gave a negative opinion on the project.

Remuneration of the Supervisory Board

The General Meeting defined the gross attendance fee for Supervisory Board Members at its session held in July 2009. In 2010, the attendance fee for the Chairman of the Supervisory Board amounted to €429 gross and €330 gross per Member per session. Remuneration for the correspondence sessions comprised 80% of the regular attendance fee. The Chairman of the Supervisory Board received a gross payment of €286 and the Members received a gross payment of €220 for their participation in committee sessions. Travel costs and daily allowances were paid out to the Supervisory Board Members in accordance with company regulations.

Endorsement of the Annual Report and opinion of the Auditor's Report

The Supervisory Board reviewed the Annual Reports of Luka Koper, d. d. and the Luka Koper Group for 2010, and the proposal of the Management Board regarding the allocation of the accumulated profit at its 18th regular session, held on 22 April 2011. It was also brought up to speed with the Auditor's Report and found no objections. While examining the Annual Report, the Supervisory Board found the report on the operations of Luka Koper, d. d. and the Luka Koper Group to be clear and transparent, and that it represented an accurate overview of the business position. The Supervisory Board unanimously approved the Annual Report of Luka Koper, d. d. and the Luka Koper Group. Luka Koper, d. d. generated a net loss of €2,431,888 in 2010, and, following the adoption of the decision of the Management Board, the Company covered the established net loss through a release of profit reserves accumulated in the past. The Company confirms that the accumulated profit for 2010 is zero.

Based on the development steps outlined and taking the current business conditions into consideration, the Supervisory Board assessed the Management Board's work in 2010 to have been good. The Supervisory Board proposes that, on the basis of the Annual Report of the Luka Koper, d. d. and the Luka Koper Group, the Auditor's Report and this report, the General Meeting discharge the Management and Supervisory Boards for their work performed in 2010.

Janez Požar, D.Sc.
Chairman of the Supervisory Board of Luka Koper, d. d.

PRESENTATION OF THE LUKA KOPER GROUP

In its role as the developmental holder of Slovenian port activity, Luka Koper ranks among the most important port and logistics systems in the Northern Adriatic. With its strategic development, the Group represents an increasingly strong link in the logistics chain between Central Europe, Eastern Europe, the Mediterranean, the Middle East and the Far East. On the basis of the Concession Agreement with the Republic of Slovenia, it takes care of port infrastructure and development. Since the Port's activity forms part of the wider area, the Group assumes increasing responsibility in terms of environmental protection.

All the terminals and other port infrastructure are managed by the public limited company, Luka Koper, d. d., which was established following the ownership transformation of the previous port company during the Slovenian transition.

Luka Koper, d. d. is listed on the Ljubljana Stock Exchange under the first quotation.

Profile of the parent company

Company name	Luka Koper, port and logistics system, public limited company
Abbreviated company name	Luka Koper, d. d.
Registered office	Vojkovo nabrežje 38, Koper
	Telephone: 05 66 56 100
	Fax: 05 63 95 020
	E-mail: portkoper@luka-kp.si
	Website: www.luka-kp.si
Entered in the register of	District Court of Koper, entry number 066/10032200
Company registration number	5144353
VAT ID no.	SI 89190033
Share capital	€58,420,964.78
Number of shares	14,000,000 ordinary no par value shares
Quotation of shares	Ljubljana Stock Exchange, first quotation
Share symbol	LKPG
Chairman of the Management Board	Gregor Veselko, D.Sc.
Deputy Chairman of the Management Board	Capt. Tomaž Martin Jamnik
Member of the Management Board	Marko Rems
Member of the Management Board – Employee Director	Matjaž Stare
Chairman of the Supervisory Board	Janez Požar, D.Sc.
Number of companies included in consolidation	5
Principal activity of Luka Koper, d. d.	Service company; port and logistics system
Activities performed in the Luka Koper Group	Various service activities

Organisation of the Luka Koper Group

The Luka Koper Group's subsidiaries round up the Port's comprehensive offer with their various services. Besides the parent company, Luka Koper, d. d., the Group was composed of the following subsidiaries as at 31 December 2010:

LUKA KOPER, D. D.	**THE LUKA KOPER GROUP As at 31 December 2010**	**SUBSIDIARIES**
PC General Cargoes PC Container and RO-RO Terminal PC Car Terminal PC European Energy Terminal PC Dry Cargoes Expert Services		Luka Koper INPO, d. o. o., 100 % Adria Terminali, d. o. o., 100 % Luka Koper Pristan, d. o. o, 100 % Adria Investicije, d. o. o., 100 %

On 31 December 2010, Luka Koper, d. d. also presented information concerning the financial investments in associated and jointly-controlled companies where the Company has an important influence:

Associated and jointly -controlled companies	
	Adria-Tow, d. o. o., 50 %
	Adria Transport, d. o. o., 50 %
	Adriafin, d. o. o., 50 %
	Avtoservis, d. o. o., 49 %
	TOC, d. o. o., 47,82 %
	Railport Arad, s. r. l., 33,33 %
	Golf Istra, d. o. o., 20 %
	Ecoporto Koper, d. o. o., 98 %*
	Adriasole, d. o. o., 98 %*

* We do not control the companies Ecoporto Koper, d. o. o., and Adriasole, d. o. o., in accordance with IAS 27 (13). Luka Koper, d. d. is a 98% owner of both companies; however, in accordance with the memorandum of association, the adoption of decisions requires consent by both partners. On this basis, we reallocated the companies among the associated companies in accordance with the conditions of the IAS 28 (7).

Further details regarding the changes in subsidiaries, associated and jointly-controlled companies are included in the Consolidated Financial Report on page 115.

Luka Koper Group activities

Luka Koper is a multipurpose port, equipped and qualified for the throughput and warehousing of a wide variety of goods. Our basic activities are supplemented by additional terminal services and we offer our partners assistance with logistics solutions. The terminals operate as profit centres and therefore represent separate parts of the Company, from a marketing, programming, technical and technological respect. The entire port area also has an economic zone status.

Basic port activities and logistics services

The basic port activities of throughput and warehousing are carried out in twelve specialised port terminals. All the terminals are located directly along the shore and are equipped with state-of-the-art throughput and warehousing technology. The port area consists of 270 hectares of land, with 48.4 hectares of covered storage and 109.6 hectares of open storage space. We provide 28 moorings located on 3,282 metres of shoreline along 179 hectares of sea. In terms of logistics activities, our services include:

- Services provided by the collection and distribution centre for every class of goods;
- Additional services involving the assortment of goods (sorting, palletising, sampling, protection, labelling, weighing, cleaning and other services), which are regularly enhanced, based on the development of the transport industry and the needs of our clients;
- Management of the economic zone; and
- Integrated logistics solutions.

In accordance with the Concession Agreement concluded with the government of the Republic of Slovenia, we manage and maintain the Port infrastructure and ensure its development.
The Concession Agreement regulates the execution of Port activities and the management, development and regular maintenance of port infrastructure. The Agreement was concluded in 2008 for a period of 35 years, as defined in the Maritime Code. The agreed concession fee is 3.5% of the Company's operating revenues, less Port fees. The concession fee also includes water rights, water taxes and other taxes related to the use of the sea, which is owned by the Republic of Slovenia. As concessionaire, we pay the concession fee to the Republic of Slovenia and the Municipality of Koper in a ratio of 50:50.

Our state-of-the-art terminal equipment ensures high-quality and efficient services, allows us to adapt quickly to the wishes of our clients, and our services are completed by our associates Adria-Tow, d. o. o. and Adria Transport, d. o. o. With its modern tugs, Adria-Tow, d. o. o. provides vessel towing services, ship supply services, as well as sea rescue and vessel assistance at Luka Koper and Izola Shipyard. With Adria Transport, d. o. o. we have established an efficient logistics route between Luka Koper and its hinterland and ensured a greater volume of railway traffic, both in and out of Luka Koper.
We are also developing a passenger terminal, which is gaining increasing recognition on the world map of cruise destinations. The passenger terminal was launched following the partial withdrawal of port-related activities from the western part of the city of Koper and this has been its third consecutive season promoting tourism in Koper and in other Slovenian cities. In 2010, a total of 37,000 passengers visited the city of Koper.

OTHER ACTIVITIES

The operations of the Luka Koper Group are supplemented with a variety of supporting activities.
Events which require a variety of services, such as accommodation and catering services or merely space and infrastructure are left to our subsidiary to organise, Luka Koper Pristan d. o. o., which specialises in hotel and catering services.
The operations of Luka Koper INPO, d. o. o. include diversified and complex support services, including maintenance, maritime services and utility activities. Through Luka Koper INPO, d. o. o., we provide training and employment for disabled persons.

ECOLOGICAL ACTIVITIES

At Luka Koper, every aspect of responsibility for the environment is taken into account. Our environmental protection efforts are included in the following main policies:

- the introduction of modern and efficient technologies;
- reducing emissions into the environment (the regular monitoring of results and reporting);
- ensuring preparedness for emergency situations;
- maintaining partnerships with local communities; and
- continually improving the environmental management system (in 2010 we were awarded the EMAS certificate).

In the development of our eco-activities, we strive to introduce modern sustainable solutions. For this reason in 2007 we established a company engaged in technological research in the sphere of engineering and technology, focusing primarily on renewable energy sources, waste recovery, technologies for obtaining natural medical substances, and sea and inland area ecology.

HINTERLAND TERMINALS

To ensure the optimal utilisation of port capacities, we have implemented efficient transport and logistics connections with strategic markets. These include logistics and distribution centres in the hinterland, through which we can strengthen our presence in the markets of Central and Eastern Europe.

Sežana

The land logistics centre in Sežana is managed through Adria Terminali, d. o. o., in which Luka Koper, d. d. has held a 100-percent ownership share since the beginning of 2010. With the Company's new management, we have strengthened our marketing activities to acquire new loads and increase traffic between Luka Koper and the Italian market.
As for our remaining immovable property outside the terminal in Sežana, there were no major changes in 2010. We have taken a proactive approach in the disposal of the immovable property called Luna, while we decide on the development of our other immovable properties in the forthcoming period.

Arad

In the Romanian hinterland terminal Arad, we opted for the development of a container terminal in 2010, which could potentially create certain synergies with Luka Koper and the Sežana terminal and provide them with additional loads. The container terminal facilitates the independent development of container transport on land routes to other ports, such as Costanza, Rotterdam, Hamburg and others. In 2010 we therefore opted out of the ownership of a conventional terminal, but maintain a business relationship with it.

Prekmurje

As for the planned logistics centre Pannonia, in 2010 we mainly dealt with the purchase of land for the purpose of widening the areas that had already been acquired, and re-examined the conditions and limitations on the continuation of the project.

In 2010, more than 37,000 passengers visited the city of Koper.

CORPORATE GOVERNANCE REPORT

Corporate Governance Statement

Pursuant to the applicable Companies Act and the Ljubljana Stock Exchange Rules, the Management Board and the Supervisory Board of Luka Koper, d. d., issue the following statement on corporate governance.

The mandatory contents of the Corporate Governance Statement stipulated in Article 70 of the Companies Act and other information regarding the management of the Company are included in this statement and in the Report on Corporate Governance, which is an integral part of the 2010 Annual report and is available at www.luka-kp.si.

1. The Company complies with the Provisions of the Corporate Code for Public Limited Companies.

   The management of the parent company, Luka Koper, d. d., complies with the Articles of Association of the public limited company, the Companies Act, and the Corporate Governance Code for Public Limited Companies.

   We comply with the recommendations of the Corporate Code for Public Limited Companies, which was drafted and adopted by the Ljubljana Stock Exchange, the Association of Supervisory Board Members of Slovenia and the Association of Managers on 8 December 2009, and is available on the Ljubljana Stock Exchange website (www.ljse.si).

   The Management Board and the Supervisory Board declare that, in 2010, they have complied with the provisions of the Corporate Governance Code for Public Limited Companies, except for some deviations relating to the following items:

   Item 22.7: The Company announces the gross and net receipts of each individual Member of the Management Board and Supervisory Board. The announcement is clear and understandable to the typical investor, and besides the legislative contents also contains the following:

   - An explanation as to how the performance criteria selection contributes to the Company's long-term interests,
   - An interpretation of the methods used to decide whether the performance criteria were met or not,

- Accurate information on the variable part of receipt payment deferral periods,
- Information on the policy regarding termination benefits, including the conditions for the payment and amount of termination benefits,
- Information regarding the vesting periods,
- Information on the policy regarding the transfer of shares withholding after vesting,
- Information on the structure of expert groups of the companies, whose policy on receipts was examined based on the receipts policy established at a relevant company.

Explanation: in presenting the receipts of the Management Board and the Supervisory Board, the Company fully respects the provisions of the Companies Act.

Signatories of the statement of compliance with the Corporate Governance Code for Public Limited Companies:
The Management Board and the Supervisory Board

2. The main characteristics of the internal control system and risk management in the Company in relation to the financial reporting procedure are described in the report on Corporate Governance, in the subchapter headed System of Internal Controls; and in the chapter on Risk Management.

3. Luka Koper, d. d., is obligated to apply the Takeover Act, in accordance with the provisions of paragraph 6, Article 70 of the Companies Act-1. The Company was not subject to the relevant provisions of the Takeover Act in 2010, as the circumstances requiring the application of these provisions did not exist at the time.

4. The operations of the General Meeting, its key competencies and description of shareholders' rights and the method of exercising these rights are legally defined and stipulated in more detail in the Company's Articles of Association, which are accessible to the public at www.luka-kp.si. The operations of the General Meeting in 2010, key competencies, shareholders' rights and the method of exercising these rights are described in the Report on Corporate Governance, in the subchapter headed Two-Tier Management System and General Meeting of Shareholders.

5. Information regarding the composition and operation of the management and supervisory bodies and their committees is described in the Report on Corporate Governance, in the subchapters headed 'Supervisory Board' and 'Management Board'.

Signatories to the Corporate Governance Statement:
Management Board and Supervisory Board of Luka Koper d. d.

The management of Luka Koper, d. d. and the Luka Koper Group complies with the applicable laws and internal organisational rules. We have followed the guidelines designed to ensure transparent corporate governance for all our shareholders, employees and the general public, provided by the Corporate Code for Public Limited Companies and recommended by the Association of Supervisory Board Members. On the basis of the recommendations provided by the Code, the Supervisory Board adopted a Management Policy for Luka Koper, d. d. in May 2010, as a commitment to future action.

Two-tier management system

Luka Koper, d. d. operates under a two-tier management system, under which the Management Board is responsible for the Company's management; the Supervisory Board supervises operations and the General Meeting of Shareholders represents the highest decision-making body of the Company. The competencies of individual bodies are defined in the Companies Act and stipulated in greater detail in the Company's Articles of Association and the Rules of Procedure of the General Meeting of Shareholders, the Supervisory Board and the Management Board. The Articles of Association of the Company are available at www.luka-kp.si (About the Company).

General meeting of shareholders

The General Meeting of Shareholders is the highest decision-making body of the Company and determines its status changes, profit-sharing and the appointment or discharge of Members of the Supervisory Board. The Supervisory Board supervises the Management Board, appoints or discharges Members of the Management Board, ensures motivation and adopts the Annual Report.

Convening the general meeting of shareholders

The Management Board usually convenes the General Meeting of Shareholders once a year and, if necessary, an extraordinary General Meeting of Shareholders may be assembled. The convening of the General Meeting of Shareholders is published at least one month in advance in the official Gazette of the Republic of Slovenia, in the daily newspaper, Delo, on the electronic information system of the Ljubljana Stock Exchange "SEOnet", and on the Company website. Information regarding the General Meeting of Sharehold-

ers is also provided in writing to all shareholders and is published in Luški delničar, which contains even more information regarding the Company's operations.
The Company's website www.luka-koper.si includes material with draft resolutions, which is also made available to shareholders at the Company's registered office. In compliance with the rules of the Ljubljana Stock Exchange, all resolutions adopted at the General Meeting of Shareholders are published regularly.

Participation and voting rights

All shareholders who are entered in the Share register kept by the Central Securities Clearing Corporation as at the day of the convening of the General Meeting of Shareholders may take part in the General Meeting and exercise their voting rights provided they register with the Management Board of the Company at least three days before the date set for the General Meeting.
All shareholders have equal voting rights as all the Company's shares belong to the same class.

Resolutions of the general meetings of shareholders

In 2010, the General Meeting was convened on two occasions. At the 17th Regular Meeting of Shareholders, which was convened on 26 March 2010, the shareholders decided on the following issues:

- A decision was adopted, pursuant to which the Management Board of Luka Koper, d. d., must bring an action for damages in relation to the management of individual transactions of the Company within six months of the date of the Meeting; this was a result of a breach of duty by Members of the Management and Supervisory Boards; and
- A decision was adopted, pursuant to which the auditing firm PricewaterhouseCoopers, d. o. o. must finalise its special audit report, completing the missing fields.

At the 18th Regular Meeting of Shareholders, which convened on 19 July 2010, the shareholders adopted the following resolutions:

- They were informed of the adopted Annual Report for 2009;
- They approved the allocation of distributable profit for 2009. Shareholders were informed that the distributable profit for 2009 was €nil. In 2009, Luka Koper, d. d., had a net loss of €59,191,002.63; therefore, the Company covered the identified net loss during the preparation of the Annual Report with the release of revenue reserves that were accumulated in previous periods.
- They voted against the discharge of the following Management Board and Supervisory Board Members for 2009:

    - Robert Časar who was Chairman of the Management Board until 15 June 2009;

    - Aldo Babič, M.Sc., who was Deputy Chairman of the Board until 15 June 2009;

    - Marjan Babič, M.Sc., who was a Board Member until 11 September 2009;

At the 18th Meeting, the Shareholders adopted the proposed amendments to the Articles of Association of the public limited company.

Material containing the proposed decisions is available at www.luka-koper.si, and can also be viewed by the Shareholders at the Company's headquarters.

    - Boris Marzi, M.Sc., who was a Member of the Management Board – Employment Director until 11 September 2009;
    - The Supervisory Board, which held its function until 13 July 2009.
- They granted discharge for the following for 2009:
    - Gregor Veselko, D.Sc., Chairman of the Management Board, whose mandate commenced on 16 June 2009;
    - Capt. Tomaž Martin Jamnik, Deputy Chairman of the Management Board, whose mandate commenced on 16 October 2009;
    - The Supervisory Board, which held its function from 14 July 2009.
- Ernst & Young, d. o. o., Dunajska cesta 111, Ljubljana was appointed auditor for Luka Koper, d. d., and the Group for 2010;
- The proposed amendments to the Articles of Association of the public limited company were adopted, of which, in addition to the amendments adopted to comply with the provisions of the Companies Act-1, the most important were as follows:
    - The provision stating that the primary objective of a public limited company is to maximise share value in accordance with the Corporate Governance Code for Public Limited Companies;
    - The provision relating to the competencies and composition of the Supervisory Board;
    - The extension of the Management Board with additional Members, which will enter into force one year after the adoption of this decision.
- They were informed of the special audit report of Luka Koper, d. d. of 20 April 2010, produced by the auditing firm PricewaterhouseCoopers, d. o. o.;
- They adopted a decision amending the decision adopted at the 17th General Meeting of Shareholders, regarding bringing an action for damages in relation to the management of individual transactions of the Company, which was a result of a breach of duty by Members of the Management and Supervisory Boards.

Supervisory board

On 21 October 2010, Boris Popovič submitted a request to be discharged from his position as a Member of the Supervisory Board. He stated that the reason for his resignation was due to the requirement to comply with Article 27 of the Act on Integrity and Prevention of Corruption. As of the date mentioned, the Supervisory Board operated with eight Members, which still ensures a quorum.

Composition of the supervisory board

As at 31 December 2010, the composition of the Supervisory Board of Luka Koper, d. d., was as follows:

Representatives of capital:

Janez Požar, D.Sc.,Chairman
Representative of capital: The Republic of Slovenia
Position: Ministry of Transport, CEO of Maritime Directorate
Four-year mandate commencing on 14 July 2009

Bojan Brank, Member
Representative of capital: The Republic of Slovenia
Position: ABENA, d. o. o.
Membership of other supervisory bodies: Slovenske železnice, d. o. o.
– Member of the Supervisory Board
Four-year mandate commencing on 14 July 2009

Marko Simoneti, D.Sc., Member
Representative of capital: The Republic of Slovenia
Position: University of Ljubljana, Faculty of Law
Membership in other supervisory bodies: NLB, d. d.
– Chairman of the Supervisory Board
Four-year mandate commencing on 14 July 2009

Jordan Kocjančič, Member
Representative of capital: The Republic of Slovenia Funds
Position: CEO Avtotehna, d. d., Chairman of the Management Board
Membership in other supervisory bodies: Supervisors Association - Member of the Management Board
Chamber of Commerce – Chairman of the Supervisory Board
Four-year mandate commencing on 14 July 2009

Tomaž Može, Deputy Chairman
Representative of capital: other shareholders
Position: Primorska Chamber of Commerce, Director
Membership in other supervisory bodies: Marmor Sežana, d. d.
– Chairman of the Supervisory Board, Splošna bolnišnica Izola
– Member of the Council of the Institute, University of Primorska - Chairman of the Board of Trustees of UP, ZZZS (Health Insurance Institute of Slovenia) Koper - Member of the Council of the Institute.
Four-year mandate commencing on 14 July 2009

Representatives of workers:

Mladen Jovičič, Member
Position: PC Dry cargoes, Lift operator
Four-year mandate commencing on 8 April 2009

Stojan Čepar, Member
Position: PC Dry cargoes, Lift operator
Four-year mandate commencing on 8 April 2009

Nebojša Topič, Member
Position: Investments, technology and procurement,
Head of projects
Four-year mandate commencing on 27 July 2008

In the past year, individual Members of the Supervisory Board participated in a number of training courses and seminars organised for supervisors and have learnt about the interpretation of financial statements and the work of the Audit Committee; in addition, they participated in other training sessions organised by the Association of Supervisory Board Members of Slovenia. They also attended the Conference on Corporate Governance of the Association of Supervisory Board Members of Slovenia, and the employee representatives received training on worker participation.

In 2010, the Supervisory Board devoted great attention to the investment schedule and the financial situation of the Company, as well as the establishment of the Slovenian logistics holding.

Operation of the supervisory board

The Articles of Association and the Rules on Procedure of the Supervisory Board, Corporate Governance Code and the recommendations of the Association of Supervisory Board Members provide the basis for the operation of the Supervisory Board of Luka Koper d. d.
In 2010, the Members of the Supervisory Board held nine regular sessions and ten correspondence sessions.
Great attention was devoted to the investment schedule and the financial situation of the Company, as well as the related acquisition of new sources of funding and the establishment of the Slovenian logistics holding. More details about the operation, resolutions and views of the Supervisory Board are included in the Report by the Supervisory Board for 2010.

Conflict of interest statement of the members of the supervisory board

Pursuant to Appendix C3 to the Code of Governance of Public Limited Companies, on 25 February 2011, the Members of the Supervisory Board of Luka Koper, d. d., each signed the conflict of interest statement; examples of a conflict of interest are as follows:

- Having currently or in the past three years engaged in significant business relations with either Luka Koper, d. d., or its related companies;
- Being a major shareholder of Luka Koper, d. d.;
- Having as an individual either economic, personal or any other close ties with the major shareholder or its Management Board;
- Being a significant supplier of goods or services (inclusive of consultancy or auditing services);
- Having received, over the past three year major additional receipts from Luka Koper, d. d., or its related companies, other than payments received as a Member of the management bodies of any of these companies;
- Holding the position, in the past three years, of either a partner or employee of the current or past external auditor of Luka Koper, d. d. or its related companies;
- Being a close relative of another Member of the Supervisory Board or the Management Board of Luka Koper, d. d.

Supervisory board committees

At the end of 2010, the following three committees operated within the framework of the Supervisory Board:

The Human Resource Committee: comprised of Bojan Brank (Chairman), Marko Simoneti, D.Sc. and Nebojša Topič (Members) and Marko Blažič (Secretary),

The Audit Committee: comprised of Janez Požar, D.Sc. (Chairman until 30 April 2010), Jordan Kocjančič (Chairman from 1 May 2010 onwards), Mladen Jovičič and Blanka Vezjak (Members) and Neda Ritoša, Secretary of the Committee.

The Supervisory Board's Committee for Infrastructure: comprised of Marko Simoneti, D.Sc. (Chairman), Bojan Brank, Tomaž Može, Nebojša Topič and Sabina Mozetič (Municipality of Koper) as Members, and Roberto Levanič, Secretary of the Committee.

The Human Resource Committee participated in the preparation and coordination of contracts for Members of the Management of Luka Koper, d. d., as outlined in the government recommendations on the limits of salaries, remuneration and other benefits in state-owned companies.

The Audit Committee met on three occasions in 2010. At their first session, held in April, they discussed the Annual Report for 2009. At the second session, held in November, the Committee discussed the rules of procedure of the Commission, the nine-month performance of Luka Koper, and adopted a work plan for the future. At the third session, in December, the Committee addressed the internal company activities regarding internal audit and accounting, and gained knowledge of the internal controls and activities associated with the annual plan and strategy.

The Committee for Infrastructure did not hold a meeting in 2010.

Remuneration of the supervisory board members

At its session in July 2009, the General Meeting of Shareholders set attendance fees (on a gross basis) for Members of the Supervisory Board. In 2010, the Chairman and Members of the Supervisory Board received attendance fees of €429 gross and €330 gross respectively for participating in a regular meeting. For participating in correspondence sessions, they are entitled to 80% of the above amounts.
For participating in a committee session, the Chairman and Members are entitled to attendance fees of €286 gross and €220 gross respectively. Travel expenses and daily allowances are paid to the Supervisory Board in accordance with the regulations of Luka Koper.

Management board of the company

The Management Board directs the Company's operations and represents the Company in accordance with the competences stipulated in the Articles of Association and the Rules of Procedure of the Management Board.
In accordance with the Corporate Governance Code for Public Limited Companies, the Management Board places great emphasis on responsibility and corporate transparency.
The Management Board of Luka Koper, d. d., consists of:

From left: Gregor Veselko, D.Sc., *Chairman of the Management Board*; Marko Rems, *Member of the Management Board*; Matjaž Stare, *Employee Director*; Capt. Tomaž Martin Jamnik, *Deputy Chairman of the Management Board*

- **Gregor Veselko, D.Sc.,** born 1974
  Chairman of the Management Board

Gregor Veselko graduated at the University of Ljubljana, Faculty of Economics. After completing his Master's studies in management and maritime transport, he gained his PhD in transport logistics and the strategic management of supply chains at the Faculty of Maritime Studies and Transport.
Since 1999, he has been employed at Intereuropa, d. d., in the department of maritime transport, and also as a regional manager of Luka Rijeka and CEO of Intereuropa, d. d.
His five-year term of office commenced on 16 June 2009.

- **Capt. Tomaž Martin Jamnik,** born 1956
  Deputy Chairman of the Management Board

Tomaž Martin Jamnik graduated at the Maritime College and later obtained a university degree at the Faculty of Maritime Studies and Transport in Portorož.
He sailed on cargo ships for a number of years, rising to the rank of Captain. In 1995 he took up a position at the Ministry of Transport as State Undersecretary for Maritime Issues, and participated in drafting the Maritime Code. In 1997 he assumed the directorship of Adria-Tow, d. o. o., and was employed four years later by Luka Koper. Initially, he held the post of head of marketing projects, then becoming the head of the Hungarian market, and later the head of the Regional Representative Office of Luka Koper in the Far East.
His five-year term of office commenced on 16 October 2009.

- **Marko Rems,** born 1967
  Member of the Management Board

Marko Rems graduated from the Faculty of Economics in Ljubljana. During his career, he has held a number of leading positions, mainly in the fields of finance and informatics. In 1992 he gained a position at the Agency of the Republic of Slovenia for Restructur-

ing and Privatisation, first as head of projects and then as head of Information Technology Services. He continued his career in a number of leading positions; among others, he was a procurator and Member of the Management Board of Žito, d. d. Since the beginning of 2008, he has been a Member of the Management Board of Adriatic Slovenica, d. d.
His five-year term of office commenced on 1 March 2010.

- **Matjaž Stare,** born 1957
  Employee Director

Matjaž Stare graduated from the Department of Defence Studies of the Faculty of Social Sciences. He worked in various fields within the Ministry of Defence and, following Slovenia's independence, continued his independent career in the design and management of media projects, marketing and sales, publishing, publications and journalism.
His five-year term of office commenced on 18 October 2010.

From 11 September 2009, the procurator of Luka Koper d.d. is Mirko Pavšič.

In 2010, the Members of the Management Board held the following positions in the corporate governance bodies of non-related companies:

- Chairman of the Management Board Gregor Veselko, D.Sc. was a Member of the Supervisory Board of Vinakoper, d. d. and Member of the Supervisory Board of IEDC Bled School of Management;
- Deputy Chairman of the Management Board, Captain Tomaž Martin Jamnik was a Member of the Management Board of Trade Trans Invest a. s.;
- Member of the Management Board Marko Rems performed the function of Member of the Management Board of Adriatic Slovenica, d. d., Koper and Chairman of the Supervisory Board of Gea College and has been a Member of the Investment Committee of Poteza Adriatic Fund B. V. since November 2010;
- Member of the Management Board – Employee Director Matjaž Stare was a Member of the Council and founding board of the non-profit Metron Institute. He was procurator of Toncity, d. o. o. until November 2010.

The presentation of the Members of the Management Board is also available on the Company website, www.luka-kp.si.

Operation of the management board

Management directs the operations of the Company in its best interests, autonomously and assumes sole responsibility for its actions. It performs its work in accordance with regulations, the Articles of the Association and the binding decisions of Company bodies. The Management Board, which acquired a fourth Member in October, the Employee Director, strove towards the implementation of optimal management and the realisation of strategic operations focusing on the long-term success of the parent company and the entire Luka Koper Group. The Chairman and Members of the Management Board are therefore responsible for the following areas:

Tasks of the Chairman of the Management Board:

- Institutional coordination and multimodalism
- Internal audit
- Public relations
- Legal matters
- Human resources and organisational matters
- Research and development
- Investments, techniques and procurement
- Electronics
- General protection and marine protection

Tasks of the Deputy Chairman of the Management Board:

- Profit centres
- Operations and sales
- Marketing
- Coordination of operations
- Internal railway transport

Tasks of the Member of the Management Board for Finance:

- Finance
- Accounting
- Control
- Development of computer-assisted business processes
- Quality
- Cost supervision

Tasks of the Member of the Management Board – Employee Director:

- To represent employee interests in accordance with the Worker Participation and Management Act
- To ensure the health of employees and the ecology
- To fulfil operations and tasks arising from written agreements between employees and employers (participatory agreement and other agreements)

Tasks of procurator:

- project Panonija

Remuneration of the management board

The receipts of the Management Board are comprised of a fixed and variable component. They are reconciled with the Act Regulating the Income of Managers of Companies owned by the Republic of Slovenia and Municipalities (the majority shareholder is the Republic of Slovenia) and autonomous local communities. They are stipulated in the management employment contracts concluded with Members of the Management and Supervisory Boards, and also define reimbursements and benefits. The remuneration of Management Board Members with stock option plans is not envisaged in the Articles of Association of Luka Koper, d. d. The amounts of payments, reimbursements and benefits are reported in Note 28 of the Financial Report of Luka Koper, d. d., whereas information regarding the number of shares owned by the Management Board Members is presented in the chapter headed LKPG Shares.

Conflict of interest statement of the members of the management board

Pursuant to Appendix C3 to the Code of Governance of Public Limited Companies, the Members of the Management Board of Luka Koper, d. d. each signed the conflict of interest statement on 25 January 2011; a conflict of interest arises if any of the following applies to a Member of the Management Board:

- The Member is, or has been over the past three years, engaged in a significant business relationship with either Luka Koper, d. d., or its related companies;
- The Member is major shareholder of Luka Koper, d. d.;
- The Member has either economic, personal or any other close ties with a major shareholder or its Management Board;
- The Member is a significant supplier of goods or services (including consultancy or auditing services);
- The Member has received over the past three years significant additional receipts from Luka Koper, d. d., or its related companies, other than payments received as a Member of the management bodies of any of these companies;
- The Member has been in the past three years either a partner or employee of the current or prior external auditor of Luka Koper, d. d. or its related companies;
- The Member is a close relative of another Member of the Supervisory Board or the Management Board of Luka Koper, d. d.

Management and governance of subsidiary companies of the Luka Koper Group

The dividend policy of subsidiary, jointly-controlled and associated companies endeavours to maximise the payment of profit in non-strategic investments and the harmonised payment of profits with regard to investment-research cycles in strategic investments.

As regards the management, investments are classified into four groups, which also define their respective management procedures:

- **Portfolio investments** are investments in the shares of companies which are listed on the stock exchange, investment funds, deposits and other financial instruments. They are managed for the purpose of ensuring and managing the liquidity of Luka Koper, d. d., and the Luka Koper Group.
- **Non-strategic investments** are investments in the shares and stakes of companies engaged in activities not directly linked to the strategic orientation of the parent company, and are not portfolio investments. They are managed in accordance with the investment custody. Investments will be subject to different possible types of disinvestment.
- **Strategic investments** are investments in the shares and stakes of companies engaged in an activity directly linked with strategic orientations of the parent company. They are managed in accordance with the principle of the operation of affiliated groups.

- **Other strategic investments** are investments in the shares and stakes of companies engaged in an activity important for the parent company due to a broader corporate and sustainable motive. They are managed in accordance with investment custody.

Management and governance of subsidiaries of the Luka Koper Group as of 31 December 2010

Company	Director	Equity stake of the parent company
Luka Koper INPO, d. o. o.	Mirko Pavšič	100%
Adria Terminali, d. o. o.	Dimitrij Pucer	100%
Luka Koper Pristan, d. o. o.	Darko Grgič	100%
Adria Investicije, d. o. o.	Mojca Černe Pucer	100%

Internal audit

In terms of the reporting structure, the internal audit function is directly responsible to the Chairman of the Management Board of Luka Koper, d. d. It carries out the function of independent control over the legality, accuracy and regularity of the Group's operations. The goal of internal audit is better risk management and improved internal control, and also to directly contribute to the increased cost effectiveness, efficiency and performance of Luka Koper, d. d. and the Luka Koper Group within the adopted strategy, business policies and business and financial plans.

In 2010, six internal audits were carried out, comprising the audit of two business processes, the expert service, two subsidiaries, and an investment project. The units indicated underwent verification on the existence, operation and efficiency of internal controls; recommendations for their improvements were also provided. As a result of tracking the changes in standards for the professional practice of internal controls and the establishment of reporting to the Audit Committee of the Supervisory Board, the Rules of Internal Audit of the Luka Koper Group were amended in 2010.

One of the fundamental tasks of the internal audit in 2011 remains the development and verification of the internal control operation in order to ensure operational compliance with regulations, accounting orientations and the mitigation of all risks borne by the Luka Koper Group.

Internal control system

The Management Board of Luka Koper, d. d., is responsible for the internal control system operation as regards the management of all types of risk assumed by the Luka Koper Group. The internal control system is incorporated in every process and facilitates the implementation of process checks and risk exposure assessment by means of an established control point reviewing mechanism. In accordance with the key business processes, control points are listed in the quality management system documentation. Such a management system requires regular systematic process checks by certified external auditors.

Internal controls and risk management related to financial reporting

By implementing adopted policies and procedures applicable to the internal control system in the field of accounting, our objective is to ensure accurate, reliable and complete accounting records, and the preparation of accurate and true financial statements in accordance with international accounting standards.

The fundamental internal accounting controls focus on:

- Data accuracy controls; and
- Data processing completeness controls.

The supervisory or management internal accounting controls focus on:

- The segregation of duties, i.e. clearly delineated rights and responsibilities, which is essential to ensure that transactions are carried out in accordance with the agreed business policy, and to guarantee the successful performance of the Company;
- Supervision over the accuracy and precision of the work performed by employees, i.e. a reconciliation between analytical records and the general ledger, and cross-checks.

The implementation of internal accounting control procedures ensures that information used in the decision-making process for internal and external users is reliable, accurate, promptly delivered and cost-efficient. Internal accounting controls are closely tied to and dependent on IT controls which limit access to and secure data as well as the accuracy of data capture and processing.

External audit

At its 18th regular session on 19 July 2010, the General Meeting of Shareholders appointed the auditing firm Ernst & Young Revizija, poslovno svetovanje, d. o. o., Dunajska cesta 111, Ljubljana as the auditors of the financial statements of Luka Koper, d. d., and consolidated financial statements of the Luka Koper Group for the year. When changing auditors, we follow the recommendations stipulated in the Code of Governance of Public Limited Companies concerning the change of auditors at least once every five years. The auditing firm, approved by the General Meeting of Shareholders, has audited the statements for the second successive year.

The costs incurred for auditing Luka Koper, d. d. and its subsidiaries are presented in Note 2 of the Consolidated Financial Report.

EVENTS IN 2010

January

- Dr. Danilo Türk, the President of the Republic of Slovenia, visited Luka Koper, d. d. and supported its development plans.
- We started publishing information on the sustainable development portal www.zivetispristaniscem.si concerning the average hourly noise level at two check points within the Port.

February

- We made the first public invitation for the submission of applications for the co-financing of projects from the sponsorship and donations fund called »Living with the Port«.
- On the Slovenian Maritime Day, the associate Adria-Tow, d. o. o., received special recognition for the successful rescue of a wrecked ship outside the Port aquatorium.
- We organised an international meeting of concern partners in the SoNoRa (South North Axis) project in Portorož, one of the most important projects in the European territorial cooperation in Central Europe concept.

March

- Marko Rems took up the post of the third Member of the Management Board after being appointed to this position by the Supervisory Board on 6 November 2009.
- Luka Koper, d. d. purchased a 49% stake from the Slovak company, Spedition Trade Trans Holding a. s., thereby becoming a 100% owner of Adria Terminali, d. o. o., which manages the logistic centre in Sežana. At the same time, Luka Koper, d. d. sold its 17% ownership in Trade Trans Terminal s.r.l.
- At the 17th session of the General Meeting of Shareholders of Luka Koper, d. d., the shareholders voted against a decision instructing the Management Board of Luka Koper, d. d. to file a lawsuit for the reimbursement of damages in connection to the actions of management regarding individual company transactions which were damaging to the Company due to violations of the responsibility of management and/or supervisory bodies, within six months of the General Meeting.

- The associate TOC, Tehnološko okoljski in logistični center, d. o. o., was awarded the SIST EN ISO/IEC 17025 certificate confirming that the laboratory has had a quality system installed and is technically fit for independent fuel quality control on the domestic and international market.
- Representatives of the Ports of Koper, Trieste, Venice and Ravenna signed a constitution paper of NAPA (Northern Adriatic Ports Association).
- We commenced cooperation with the University of Primorska, which has been financed by Luka Koper, d. d. in its role as one of its founders since the outset, on a scholarship fund for talented students.
- During a two-day visit to Slovenia, Luka Koper was visited by Dr. Ivan Gašparovič, President of the Slovak Republic, and delegation, accompanied by the Slovenian President, Danilo Türk.

April

- The Chairmen of the Management Boards of Luka Koper, d. d. and the Slovene Export and Development Bank entered an agreement for a loan of €30m issued by the Bank to Luka Koper, d. d. with a repayment period of 15 years. The loan is intended for the completion of container terminal expansion on the first pier of Luka Koper.
- Luka Koper, d. d. was visited by the Slovenian Prime Minister, Borut Pahor, together with the Minister of Transport, Patrick Vlačič, and the State Secretary at the Ministry of the Environment and Spatial Planning, Zoran Kus.
- Luka Koper, d. d. was visited by Janez Potočnik, European Commissioner for Environment; after seeing the Port, he became convinced that Slovenia needs both – a clean environment as well as Luka Koper, d. d.
- We hosted a delegation of the Management Board of Port Klang from Malaysia, with whom Luka Koper, d. d. has been cooperating since 2006.

May

- A new direct weekly container line between the Far East and Koper was introduced by South Korean Hanjin Shipping and Hyundai Merchant Marine, the Yang Ming Line shipping company from Taiwan, and the United Arab Shipping Company from Kuwait. This route comprises eight container ships.
- The shipping company, CSAV Norasia, introduced a new weekly (feeder) container line »Adriatic Link« on the Malta-Ancona-Venice-Koper-Malta route.
- We took part in the Slovenian capital market day in Ljubljana.
- Together with Slovenske železnice d. d., we organised a Port day in Prague for our business partners.

June

- We finished the investment project in the new tankers for alcohol.
- As part of the Spanish EU presidency, Luka Koper, d. d. was visited by EU ambassadors, accredited in Slovenia.
- At one of the world's biggest logistics fairs, Transport Logistics China 2010 in Shanghai, we presented ourselves as the NAPA Association, together with Trieste, Venice and Ravenna for the first time.
- Together with the government delegation, we cooperated in the presentation of Slovenia as a logistics platform for Central and Southeast Europe in Hong Kong and Shanghai.

July

- We moored the largest passenger ship thus far to the Koper passenger terminal – Norwegian Gem is a 294-metre long cruise ship with over 2,800 passengers and a crew of 1,000.
- The 18th General Meeting of Shareholders of Luka Koper, d. d. confirmed the changes of the Statute and added a new Member to the Management Board, which now consists of five Members. The General Meeting agreed for the decision on the expansion of the Management Board to become effective as of one year after the decision date.

August

- The Supervisory Board and the Management Board of Luka Koper, d. d. wrote in their joint statement that they are prepared to cooperate creatively in the preparation of expert analysis on the foundation of the Slovenian logistics holding; however the final opinion on this will be adopted on the basis of a firm proposal.
- We coordinated the National Spatial Plan for Luka Koper with all the comments of the spatial planning carriers. In its final phase, Italy joined as a party to the procedure due to the cross-border impacts judgment.

September

- Luka Koper, d. d. signed a contract for the design, reconstruction and deepening of the coast along the passenger terminal with Primorje, d. d. from Ajdovščina. The works, with a total value of €1.58m, comprise the rehabilitation of the existing coast and the deepening of the seabed to a depth of 10 metres.
- Luka Koper, d. d., filed actions for damages against the former Management Board and the Supervisory Board at the competent court in Koper. The total claim for damages is €32,613,381. By filing the actions, the Management Board of the Company fulfilled the decisions from the 17th and 18th sessions of the General Meeting of Shareholders.
- The Slovenian Logistics Conference was held at Brdo pri Kranju. Its central topic was the foundation of the Slovenian logistics holding.
- We faced the consequences of the strike in the public sector, which also included customs officials and police officers. The detailed inspections at border crossings caused several kilometre long lines of trucks in front of the Port, and delays also occurred in the maritime work.
- The European Commission issued a decision on co-financing the second phase of the Koper-Divača railway renovation and modernisation. This triggered the first phase of railway renovation, which will reach the capacity of 14 million tonnes of cargo per year – 5 million tonnes per year more than at present.
- The already traditional Luka Koper Open Door Day was attended by over 1,500 visitors from Slovenia.
- We attended a virtual roadshow-webcast in Ljubljana, organised by the Ljubljana Stock Exchange.

October

- The container terminal completed the 2010 throughput plan; in October, container throughput reached 400,000.
- At its session held on 18 October 2010, the Supervisory Board of the Company appointed Matjaž Stare, a Member of the Supervisory Board – Employee Director. In accordance with the Worker Participation in Management Act, his appointment was suggested by the Workers' Council of Luka Koper, d. d.
- With its comprehensive sustainable project »Living with the Port«, Luka Koper, d. d. became part of the elite six European finalists for the ESPO 2010 award. The finalists were Koper, Amsterdam, Antwerp, Marseilles, Ponta Delgada, and Helsinki – the winner.
- Luko Koper, d. d. was visited by the Minister of Agriculture Dejan Židan.
- NAPA, which comprises the Ports of Koper, Trieste, Venice, and Ravenna, received a new member – Rijeka.
- Boris Popovič submitted a request for his dismissal from the Supervisory Board of Luka Koper, d. d.
- We presented ourselves at the Seventh Thai International Logistics Fair and visited Vietnam and Malaysia with our logistics partners in order to increase the recognisability of Luka Koper, d. d. in the markets of the Southeast Asia.

November

- We organised the traditional Luka Koper Days in our most important foreign markets. The business meetings in Budapest, Bratislava and Vienna were attended by approximately 350 foreign business partners and many Slovenian logistics companies.
- Luka Koper, d. d., was visited by the Minister of the Environment and Spatial Planning Dr. Roko Žarnić within the framework of the opening of the Škocjan Bay tactile model for the blind and partially sighted, financed by Luka Koper, d. d.
- We attended an international roadshow in Vienna.

December

- Based on the interest expressed for the acquisition of the shares of Intereuropa, d. d., owned by Luka Koper, d. d., and in accordance with the adopted segmentation and investment management policy, the Management Board of the Company decided to sell the shares and announce an invitation for public tender.
- The Vienna Stock Exchange again listed Luka Koper, d. d., in the CEERIUS Index (CEE Responsibility Investment Universe), which includes 13 successful companies for 2011. The members of the index are listed on stock exchanges in Central and Eastern Europe, representing the leading companies in the area of sustainable development.
- After the second audit, we received the EMAS system, which is awarded in EU Member States by competent Ministries. In Slovenia, it is awarded by Ministry of the Environment and Spatial Planning. In Slovenia, the EMAS certificate was awarded only to two more companies: Gorenje, d. d., and Cinkarna Celje, d. d., and among the European ports, only Valencia in addition to us.
- We met with Slovenian analysts of stock brokerage companies in Ljubljana.
- On 14 December 2010, Luka Koper, d. d. received a call by the Securities Market Agency to express its opinion regarding the facts and circumstances relevant for the decision in connection to the possible liability of Luka Koper, d. d., and the remaining shareholders of Abanka Vipa, d. d., who operate in unison with it, and to provide a takeover bid for the shares of Abanka Vipa, d. d., in accordance with the provisions of the Takeovers Act.
- We visited Chennai and Mumbai in India with our logistics delegation, where we presented Luka Koper, d. d. as the entrance point to Central and Southeast Europe.

EVENTS AFTER THE BALANCE SHEET DATE

Luka Koper, d. d., received a call by the Securities Market Agency to express its opinion regarding the facts and circumstances relevant for the decision regarding the possible liability of Luka Koper, d. d., and the remaining shareholders of companies:

- Krka, d. d., Novo mesto,
- Zavarovalnica Triglav, d. d., Ljubljana,
- Petrol, d. d., Ljubljana,
- Telekom Slovenije, d. d.,
- Aerodrom Ljubljana, d. d.,

which are considered to operate in unison with Luka Koper, d. d., and to provide a takeover bid for the shares of the indicated companies in accordance with the provisions of the Takeovers Act.

On 10 February 2011, the Management Board of Luka Koper, d. d., received a decision by the Management Board of the Luka Koper Crane Operators' Trade Union (SŽPD) on the beginning of the strike announced for 22 February 2011. Prior to the strike, the Management Board of Luka Koper, d. d., and the expert committee of SŽPD agreed to cancel the strike. Both parties have agreed to continue negotiations and reach agreement within three months.

On 21 February 2011, Luka Koper, d. d. and the other major shareholders of Intereuropa, d. d. listed below:

- Kapitalska družba, d. d.,
- Slovenska odškodninska družba, d. d.,
- Zavarovalnica Triglav, d. d.,
- NLB, d. d.,
- Abanka Vipa, d. d.,

announced a public invitation for offers regarding the purchase of shares of Intereuropa, d. d. The primary announcement for public invitation for offers issued on 23 December 2010 and its extension as of 7 February 2011 have remained valid.

Knowledge is power, and a word is understanding.
The only true learning is the one shared with the environment.
Its response is our future.

BUSINESS REPORT

FEATURES OF THE ECONOMIC ENVIRONMENT

After the turbulence of 2009, the general economic environment settled down and showed signs of recovery. Nevertheless, the consequences remain visible in all sectors of the economy. Competition in the field of capacity expansion, the trade of goods and development have become a constant in the maritime market, and will continue to also affect performance in 2011.

Economic growth after the period of crisis

According to the International Monetary Fund, global economic growth reached 4.6%, while the world economy shrunk by 0.6% in 2009. The markets of China, Asia and India were almost unaffected by the crisis with a rate of growth between 9 and 11%. On the contrary, the growth rate of the developed economies of the US, EU and Japan was below the global average.

After 2009, the global international trade increased by 11.5% in 2010, reaching 10.8 million tonnes.

Recovery of the shipping activity

After 2009, global international trade increased by 11.5% in 2010, reaching 10.8 million tonnes. The container throughput in the largest ports in the world experienced a 12% growth in 2010 in comparison to the year before. This way, the container throughput in 2010 increased by 9% in Singapore, 12% in Rotterdam, 11% Hong Kong, and 14% in Antwerp. In Koper, container throughput recorded a 39% increase, as we pay a great deal of attention to this throughput segment (Source: Containerisation International).

At our Port, we have allocated a large portion of funding for the construction of a new operative berth with hinterland surfaces and for the acquisition of new container cranes . Additional investments in throughput equipment will also serve as the basis for increased throughput in the container segment in the future.

Investments in new operative berths, throughput equipment, storage surfaces and container cranes will serve as the basis for increased throughput also in the future years.

End to decreasing vehicle sales

The economic crisis left its mark on the automotive industry. Despite the pessimistic forecasts by experts, the global sales of personal vehicles in 2010 grew by 12% compared to the year before. The highest growth rates were recorded in Asia (27%), followed by the Eastern European region with Russia (17%), North America (10%) and South America (9%). The Western Europe experienced a 6% fall in vehicle sales (Source: Global Auto Report).

ANALYSIS OF OPERATIONS IN 2010

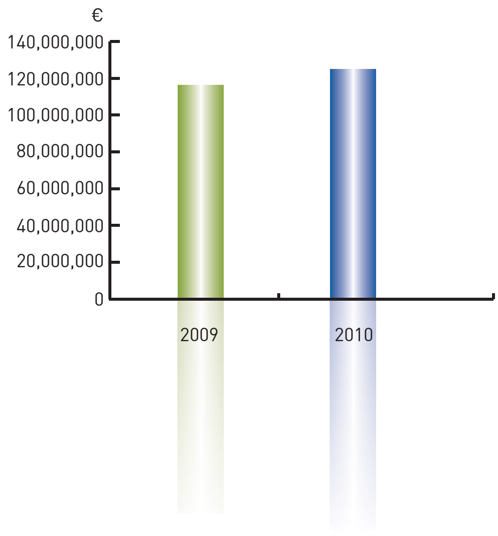
We have a difficult period behind us. Besides looking for the ways to exit the economic crisis, internal reorganisation and optimisation of business processes, we faced also the consequences of the incorrect decisions made in the past. The 2010 operating results are good, yet they are still marked by some bad debt impairments and investment impairments from the past. The managing company, Luka Koper, d. d. generates 93% of the Group's revenue; therefore most of the findings of the Group analysis apply also for the parent company.

Operating revenue

In 2010, the Luka Koper Group generated €127.7m of operating revenue, exceeding those from 2009 by 10%, and the 2010 planned operating revenue by 2%. Out of €127.7m of operating revenue, 64% was made in foreign markets. The currency of the majority of revenue (97%) is the euro, and the US dollar of the remaining 3%, which is favourable from the currency risk view. Details about the currency risk exposure and management are provided in Note 32 of the Consolidated financial report.

In the structure of Group revenue, subsidiaries account for 7%. The terminal in Sežana, operated by Adria terminali, d. o. o. made €1.6m, exceeding the total revenue of 2009 by 19%.
Revenue of the social enterprise Luka Koper INPO, d. o. o, which is engaged in the maintenance, production, and maritime and basic utility services, reached €9.6m in 2010. Compared to 2009, the revenue increased by 12%.
The subsidiary Luka Koper Pristan, d. o. o. created €1.2m with the hotel service activity, which is by 15% less than in 2009. Lower revenue was affected by fewer overnight stays in 2010 as a result of the economic crisis.

Operating revenue of the Luka Koper Group



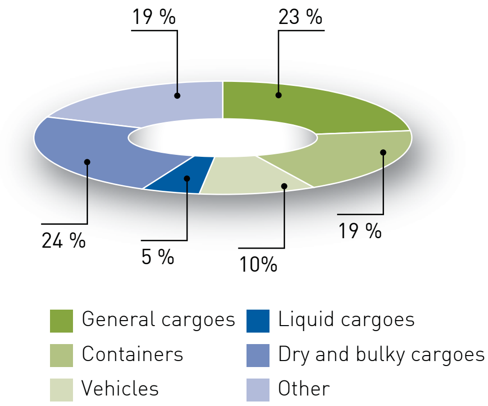
Operating revenue by product groups

Increased revenue is primarily a result of the growth of revenue from the parent company's core activity. The Port's maritime throughput, which is one of the most important indicators of the physical extent of operations, shows an increase of 17%. In terms of throughput activity, we recorded increased levels of throughput in all product groups other than the liquid cargoes. A detailed overview of the levels of throughput by individual product group is presented in the chapter headed Marketing: product groups and markets.

Operating revenue by product groups

	2009 €	2010 €	Index 2010/2009
General cargoes	27,795,662	29,396,357	106
Containers	17,194,899	23,975,083	139
Vehicles	14,004,619	12,356,173	88
Liquid cargoes	5,634,672	6,269,203	111
Dry and bulky cargoes	32,107,054	30,963,060	96
Other	19,387,734	24,778,790	128
TOTAL	**116,124,640**	**127,738,666**	**110**

Structure of operating revenue by product groups 2010



In terms of general cargo, higher revenues were achieved compared to 2009, both at the general cargo and timber terminals, as well as the perishable goods terminal due to additional services carried out for goods.
The record quantities of containers transshipped in 2010 contributed to the highest growth of revenues of the container terminal in recent years.
Despite the 21% increase in vehicle throughput, the revenue from the automobile terminal decreased compared to 2009 due to decreased warehousing revenue. The inventory of vehicles at the Port experienced a significant fall in 2010 compared to the previous year due to increased sales of automobiles based on production and orientation of customers towards costs and inventories decreasing.
The Company achieved a higher revenue growth in liquid cargoes throughput in 2010 in comparison to 2009 levels.
The product group of dry and bulky cargoes generated lower revenue in 2010 as compared to the previous year due to a more rapid turnover of goods, as shown in the lower warehousing revenue.

Operating costs

In 2010, the Luka Koper Group generated €113.5m the operating costs, which is by 9% less than in 2009, and 1% less than the planned operating costs for 2010.

Costs of material

Costs of material increased by 13% primarily due to energy costs, which represent two thirds of the total costs of material; they increased also due to increased use and price of motor fuel. Bigger throughput of all product groups and more shifts and manipulations on storage surfaces increased the motor fuel costs by 38%. More information on motor fuel consumption is presented in the chapter headed Natural environment.

Service costs

In 2010, service costs amounted to €34.1m, exceeding those from 2009 by 5%. The majority part of service costs represent costs of port services provided by contractors totalling €13.2m. The increase in throughput consequently increased also the need for port services provided by contractors, as they are directly linked to the extent of work at the Port.
Equipment and buildings maintenance costs also rose, amounting to €8.4m, i.e. 7% of operating revenue. A majority part of the maintenance costs represent port infrastructure maintenance.
Costs of other services are primarily information support costs, concession costs and other costs of wagon delivery and shipment. We allocated €3.2m for IT investment and maintenance. The influence of the concession agreement on operating expenses in 2010 is €3.9m.

Labour costs

Labour costs have decreased by 2%, amounting to €36.1m, and they account for 32% of all operating costs. The reduced costs are also a consequence of a 3% lower number of employees. More information about the number and structure of employees is presented in the chapter headed Human resource management.

Write downs

Amortisation and depreciation costs rose by 19% in 2010, accounting for €26.3m. The change is a result of concluded investments from the previous years (more information on fixed assets movement is presented in the Consolidated Financial Report on pages 135 – 138).
Additionally, we formed €1.9m of revaluation operating costs in 2010 due to the bad debt impairment.

Provisions and accrued costs and deferred revenue

The Group shows provisions and long-term accrued costs and deferred revenues in 2010 for provisions formed and used for jubilee and termination benefits, lawsuits and long-term accrued costs and deferred revenue. The movement of these items shows that more provisions and accrued costs and deferred revenues were reversed from previous years than formed in the current year, namely a difference of €251,400 (more details on the movements of provisions and accrued costs and deferred revenues are presented in the Consolidated Financial Report in Note 27).

Annual profit

In 2010, the Luka Koper Group improved its operating result, creating a profit of €14.2m, while it incurred a loss totalling €8.2m in 2009. The planned operating profit for 2010 was €10.4m. EBITDA amounted to €40.5m, and was €26.5m higher than that in 2009, and by €3.1m than the planned for 2010.

Finance revenue and expenses

The Group generated €2.3m of finance revenue in 2010 from paid shares dividends in the profits of subsidiaries and from the sale of securities.
Finance expenses of €19.8m are a result of interest expenses from loans and the investment impairment. Finance expenses from interests in the amount of €8.6m arose in connection to the debts of the parent company from previous years as result of extensive investments financing. Investments were impaired by €59.1m in 2009. At the end of 2010, the investments were re-valued, based on which we adjusted the impairments of investments to €11.1m. More details regarding impairments are presented in Note 17 of the Consolidated Financial Report and Note 16 of the Financial Report of Luka Koper, d. d.

Profit before taxes and net profit or loss

The Company generated a negative profit before taxes in the amount of €3.3m. Taking taxes into consideration, the net profit of the Luka Koper Group in 2010 was negative, amounting to €2.9m (more details on the corporate tax rate are presented in Notes 10 and 11 of the Consolidated Financial Report).

Changes in assets and liabilities

As at 31 December 2010, the balance sheet total of the Luka Koper Group amounted to €502.3m, which is 6% or €29.3m lower than at the end of 2009. The decrease was due to a reduction in the unwritten off values of tangible fixed assets and long-term investments.

In the structure of assets, long-term assets represented €459.1m or 91% of total assets. The most important items among the long-term assets were property, plant and equipment of €373.8m and long-term investments of €51.0m. The value of property, plant and equipment fell by 4% from the beginning of the year due to the sale of equipment, transfers to long-term operating receivables and write-offs due to depreciation, while new investments did not achieve the annual calculated depreciation values (more details on the implementation of investments are presented in the chapter headed Investments in non-financial assets).
Long-term financial investments decreased by 38% in comparison

to the balance at the end of 2009 primarily as a result of an impairment in investments and reallocation of long-term investment to the associate Intereuropa, d. d. into the non-current asset group (group for disposal) held for sale. The reduction in long-term investments was also due to the sale of securities and decline in the market values of investments, classified in the group available for trade. More details regarding long-term investments are presented in Note 16 of the Financial Report of Luka Koper, d. d.

Among current assets, higher growth was recorded in the assets available for sale. Current operating receivables increased by 11% due to an increase in the scope of operations in 2010. Current financial investments decreased, especially deposits at banks. Equity in the amount of €244.1m represents 49% of all funds. Compared to the end of 2009, capital decreased by 1% due to the net loss generated in 2010 and the reduction of the surplus from the revaluation of financial investments classified as available for sale.

Current operating liabilities decreased by €15.6m, i.e. 50% compared to the end of 2009. The reduction was chiefly due to a decrease in trade receivables for fixed assets.
The financial liabilities of the Luka Koper Group decreased by €8.3m in 2010, falling to €226.3m, accounting for 45% of the balance sheet total. Long-term financial liabilities represented 70% of all liabilities and short-term financial liabilities 30% (more details on the financial liabilities of the Luka Koper Group are presented in the chapter headed Financial management and Notes 28 and 29 of the Consolidated Financial Report).

Cash flow

Cash flow structure of the Luka Koper Group for 2009 and 2010

	2009/€	2010/€
Cash flow from operating activities	36,021,408	18,845,895
Cash flow from investment activities	-69,672,868	-2,266,071
Cash flow from financing activities	26,288,573	-16,453,328
Cash flow for the period	**-7,362,887**	**126,195**

In 2010, the Luka Koper Group generated a positive cash flow from operations in the amount of €18.8m, resulting from a surplus of cash flow from operations over cash expenditure. EBITDA of the Group amounted to €40.4m in 2010. Changes in net working capital had a negative effect on the Group's free cash flow of the Group. Operating receivables increased by €3.9m due to the increased extent of operations. Operating liabilities decreased by €17.6m, primarily as result of fewer investments in 2010.

Cash flow from investment activities was negative and amounted to €2.3m, containing the following items:

- the positive net effect on the cash flow for investment activities resulted from the sale of financial investments and marketable securities and mutual funds, profit participation and the reduction of deposits in the amount of €15.5m,
- the net effect of investments into intangible and tangible fixed assets and investment property was negative amounting to €17.8m as result of investments, which were much

less intensive in 2010 than in previous years (more details on investments are presented in the chapter headed Investments in non-financial assets.

Cash flow from financing activities was negative, amounting to €16.5m and the result of a €8.3m decrease in financial liabilities and the payment of interest for loans in the amount of €8.6m.

The Group generated a positive cash flow in 2010 of €126,000. The Group manages financial solvency and liquidity through careful planning and monitoring of generated cash flow on a weekly, monthly and annual basis (more details on cash and cash equivalents are presented in the chapter headed Risk management and Note 32 of the Consolidated Financial Report).

PRODUCT GROUPS AND MARKETS

Rapid and appropriate response to market conditions is especially important in an uncertain period of time because it reveals the ability of the Company to adapt and create a distinction in relation to target groups. We know what we want and how to achieve it. In the area of containers we have become the first port in the North Mediterranean basin and we remain the first even in the area of cars.

Marketing strategy

In 2010 we focused on the fundamental activities of throughput, warehousing and additional cargo-related services, as well as on providing support to the customers in establishing a constant and efficient flow of goods on the transportation and logistics routes through Luka Koper.

With our marketing strategy we monitor expected changes of the environment and support the development trends:

- by expanding the existing activities and developing new services, also by engaging subsidiary and affiliated companies;
- with qualitative, efficient, reliable, timely and safely performed services;
- with partner relationship and satisfaction of customers, suppliers and other providers of logistic services which take part in creating comprehensive transportation solutions through our port;
- with better control of costs in order to be able to offer more competitive prices in the market;
- with active engagement of our representatives in our most important hinterland markets;
- with promotional activities in overseas markets in order to make the transportation route through our port more recognisable as an ideal access point for goods destined for Central and Southeast European markets.

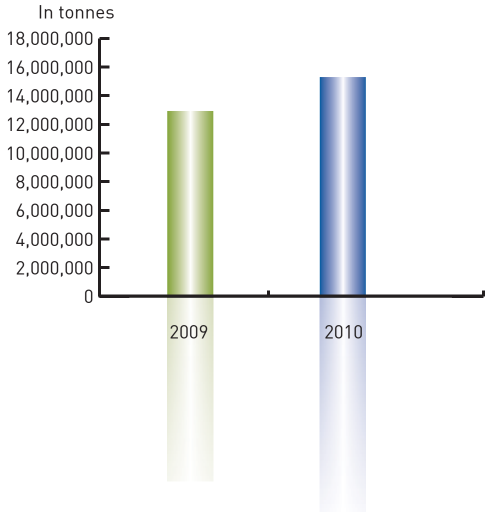
Through clearly defined objectives we will continue to strengthen relations with our customers, government bodies, customs-house, inspection and other offices which enable uninterrupted operation of the Port. Besides, we will continue to develop a long-term development strategic product groups of containers and cars as well as key maritime and land links; we will also concern about correct and partner relationship with shipping companies, railway and road transporters and other public and private providers of such services.

Maritime throughput has been increasing, particularly in the area of the product groups which were recognised in the past as most perspective.

Better times for maritime throughput

The year of 2010 was characterised by gradual economic recovery. Maritime throughput in 2010 amounted to 15.4 million tonnes, which is a 17% increase in comparison with the previous year and a 7% increase in comparison with the plan. The maritime throughput has been increasing particularly for the product groups which were recognised in the past as most perspective.

Movement of maritime throughput



Maritime throughput at other ports

The revival of global economy in 2010 affected most North Adriatic ports among which Luka Koper was in the forefront in terms of results. The comparison of data reveals considerably similar trends also at other, particularly North European ports, which reaffirm the importance of cooperation of North European ports in the promotion of the southern transportation route in overseas, particularly Asian markets. To this end, we will support an active marketing role of the already established North Adriatic Port Association (NAPA) also in the future.

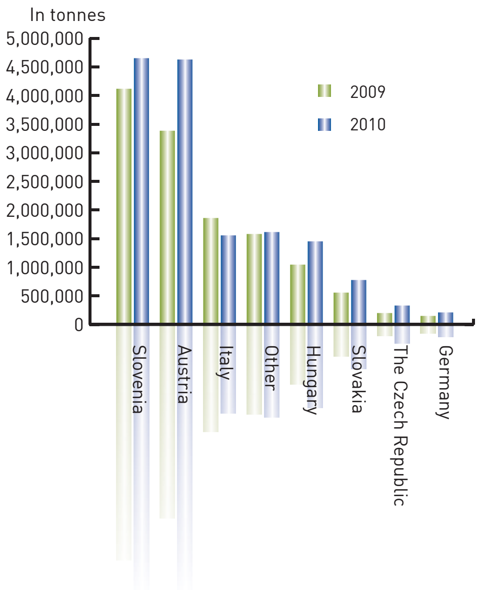
Maritime throughput in tonnes per ports

	2009	2010	Index 2010/2009
Venice	25,198,178	26,200,707	104
Trieste	44,393,322	46,150,000	104
Ravenna	18,702,876	21,915,020	117
Rijeka	11,238,154	10,183,304	91
Koper	13,143,620	15,372,043	117
Rotterdam	386,957,000	429,964,000	111
Hamburg	110,400,000	121,000,000	110

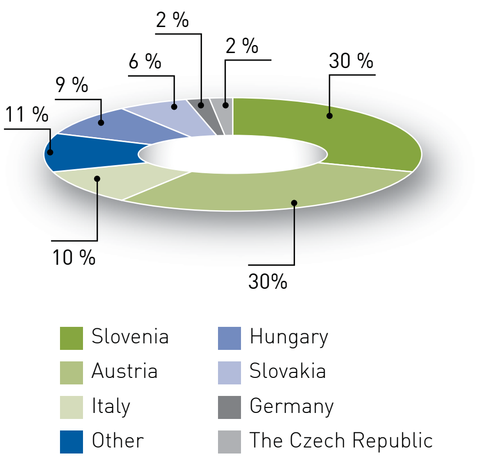
Maritime container throughput in TEU per port

	2009	2010	Index 2010/2009
Venice	369,474	393,459	106
Trieste	276,957	281,629	102
Ravenna	185,022	183,041	99
Rijeka	130,740	137,048	105
Koper	343,165	476,731	139
Rotterdam	9,743,290	11,145,804	114
Hamburg	7,007,704	7,900,000	113

Maritime throughput by markets



Structure of maritime throughput by markets



The ports of Trieste and Venice increased total throughput in 2010 by 4%, with Venice increasing container throughput by 6% surpassing thus the record quantities from 2008.
The Port of Ravenna has not achieved the quantities of 2008; nevertheless it experienced even a 17% growth in throughput in comparison with 2009, particularly due to the increased throughput of bulky and general cargos.
The Port of Rijeka is the only North Adriatic port which has not shown any signs of recovery for the third consecutive year, particularly due to still poor demand for bulky and liquid cargos in their domestic and hinterland markets.

In 2010, the ports of Rotterdam and Hamburg experienced more than a 10% increase in throughput due to the renewed impetus of the German economy and the iron industry. As a result of the higher demand for steel, over 71% more ore and iron were transshipped at the Port of Rotterdam and 14% more containers, which is their most important product group. Total container throughput at the Port of Rotterdam in 2010 reached 112 million tonnes and surpassed 2008 quantities.

Troughput structure by market

In 2010 higher maritime throughput was recorded for the majority of hinterland ports. Increased quantities were recorded also for the domestic market as over one third of goods were destined to the Slovenian market.

Slovenia

Slovenia as one of our biggest markets represents one third of the total cargo, which is transshipped in export and import. Energy-generating products, i.e. oil derivatives and coal in import, represent the highest share of throughput. The turnover in the Slovenian market in 2010 increased by 12% compared to 2009, reaching 4.7 million tonnes in total.

Austria

In 2010 the import of industrial raw materials and liquid cargoes in the Austrian market again reached the record levels of 2008.
In 2010 our business cooperation with Austria was excellent. We achieved a record throughput of 4.6 million tonnes, which was 38% higher than the throughput in the previous year. The export of timber, paper and steel products, which underwent a decline in the crisis year 2009, also slightly increased in 2010. Due to containerisation of goods and relocation of container throughput from northern ports to a southern transport route, the throughput of containers substantially increased in 2010, and besides, two regular links by container block trains from Koper to Villach and from Koper to Graz began to operate.

Italy

The Italian market is one of our most important markets, particularly due the large throughput of energy resources for thermal energy plants located on the eastern Italian coast. In 2010 the transshipped quantities were lower due to still present impacts of recession and due to the utilisation of other energy sources. No higher changes were noticed with other product groups because Italy has its own ports, which represent a keen competition for Luka Koper. The throughput in 2010 achieved 1.6 million tonnes, which is by 17% less than in 2009.

Hungary

The good results in the Hungarian market are due to the extensive range of intermodal services, improved road links and direct maritime links.

Due to a positive economic climate in Hungary, the throughput of Hungarian goods through Luka Koper increased by 34% in 2010 and achieved 1.4 million tonnes, with the container transport exceeding the magic limit of 100,000 TEU. The Port of Koper became an important distribution centre for Hungarian importers of soybeans as almost 60% of total soybeans imports were realised through Luka Koper. Furthermore, in 2010 we started to handle imported coal and exported scrap iron. The throughput of general cargos, fruits and cars for the Hungarian market did not increase substantially in 2010. It can be said that the reasons for such good results in the Hungarian market are due to Luka Koper, d. d. assuming a leading role in the container segment of the Hungarian market. The recognition of Luka Koper, d.d. is growing due to its extensive range of intermodal services, improved road links and direct maritime links.

Slovakia

Slovakia was the fastest-growing hinterland market in 2010 as throughput for this market has increased by more than 43% while container throughput achieved a record figure.

The Slovak market is an extremely fast developing market, which succeeded in attracting lots of foreign investments in recent years, particularly in the automotive and industrial electronics sectors. In order to strengthen the presence of the Company in Slovakia, we established our own representative office in Bratislava at the beginning of the year, which is responsible for the Slovakian and Czech markets. The throughput for this market has increased by more than 43% with the container throughput being higher by even more than 79%, which is the record achievement in this market. In addition to steel products, vehicles and bauxite, containers represent the highest share of throughput activities. Total traffic in the Slovak market amounted to 833,000 tonnes in 2010.

The Czech Republic

In 2010, throughput in the Czech market increased by over 40% to reach a total of 347,000 tonnes. The Czech and Slovak markets are becoming increasingly important for the operations of Luka Koper. Steel products, cars and containers predominate among the product groups.

Germany

In 2010 Germany experienced growth of all economic indicators along with the economic crisis calming down and, according to the opinion of analysts, even coming to the end. Total throughput amounted to 241,800 tonnes and exceeded the throughput from 2009 by 11%. The increase in throughput was especially high for cars, which was the cargo with the largest share in the German market. In addition to cars, the most important product groups for the German market are containers, general cargoes (iron products), perishable goods and livestock.

Other markets

In 2010 the Company paid special attention not only to hinterland ports but also to the Near and Far East markets which are highly important for Luka Koper. Together with the Ministry of Transport, the Slovenian Chamber of Commerce and Industry, the Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investment (JAPTI) and other participants in the transport chain, we organised conferences and presentations of the transport route under the title "Slovenia – a logistics platform for Central and Southeast Europe" which took place in Hong Kong, Shanghai, China and India. Container throughput for the Near and Far East markets increased, particularly due to the establishment of a new, the second direct line with the Far East. The flows of fruits and vegetables on the Israel–Europe route are already well established through direct weekly container links to Luka Koper, and are supplemented with enhanced services. We started with the activities for establishing similar services also for Egypt. In 2010 we decided to close down the Indian contractual representative office, which does not mean that the activities in this market will be reduced. Just the opposite – in the future more attention will be focused on these markets and our promotional activities will be intensified in order to increase the recognition of Luka Koper.

Container throughput for the Near and Far East markets increased, particularly due to the establishment of a new, the second direct route with the Far East.

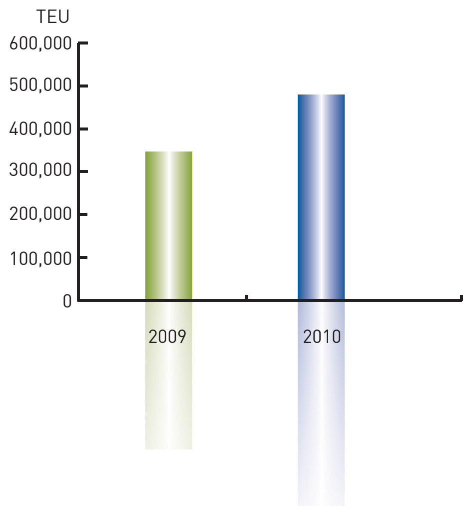
Throughput structure by product group

Throughput increased for most product groups, most significantly for containers, cars, dry and bulky cargos. Such result can be attributed also to a well-coordinated marketing and sales activities, investments into infrastructure and proper technological upgrades. The growth in throughput of majority of product groups is a good indicator of ongoing technological upgrades and a high level of services are key factors for obtaining a competitive advantage.

Containers

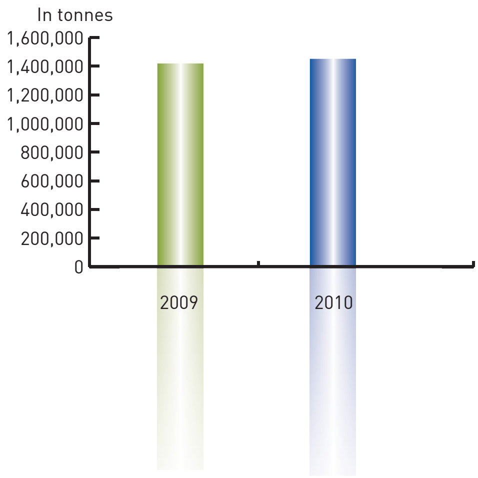
Container throughput, which amounted to 476,731 TEU in 2010, is by 39% higher than in 2009 and by 33% higher compared to plans. The achieved quantities represent a very good result in comparison with other container ports in the region, particularly in North Europe.

Movement of maritime container throughput

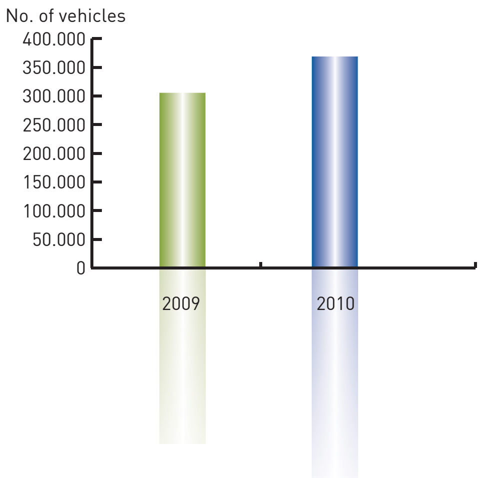


Container throughput which amounted to 476,731 TEU in 2010 is 39% higher than in 2009 and represents a very good result in comparison with other container ports in the region, particularly in North Europe.

Movement of general cargo maritime throughput



Movement of vehicle maritime throughput



In 2010, the rapid increase in throughput in 2010 was mostly supported by:

- realisation of strategic guidelines regarding container traffic;
- arrival of new container shipping companies to Koper and the establishment of a new direct line from the Far East in the middle of the year;
- closer, faster and cheaper links by land, a gradual redirecting of specific goods flows for Central and East European countries from northern ports to the south Adriatic ports and, accordingly, to Luka Koper;
- increasing concentration of goods flows of important global customers at Luka Koper;
- upgrading land traffic infrastructure and a more extensive offering of intermodal services.

The investments in previous years and new investments, in addition to the achieved good results and maintenance of competitive advantage, enable the Company to increase throughput and utilise the potential of the Port due to its favourable geographical position.

General cargoes

A moderate but steady trend of growth has been noted for individual product groups, such as iron products, aluminium and heavy cargos. The throughput of coffee and magnesite bricks remained the same in terms of quantity as in 2009. A trend toward containerisation can be noticed in the case of product groups, such as paper, cellulose and PVC, which increases the containers filling/emptying segment.

Marketing activities have been intensified in the segment of project cargos. Due to higher complexity and consequently, higher value added, this is a desirable type of cargo. The throughput of livestock in export increased multiple times in 2010.

Container throughput of fruit and vegetables and other perishable goods has increased substantially. In this segment the distribution of goods is performed directly to the recipient. As regards bananas, the Port will continue to be a significant port for imports in the future.

The largest share in timber traffic belongs to the throughput of cut lumber of conifers in export to the Middle East and North Africa. Conventional throughput of timber has slightly increased, although higher growth can be noticed in the container timber filling segment.

General cargo throughput achieved 1.4 million tonnes in 2010, which means 2 percent more than in 2009 and 3% less than planned.

Vehicles

Despite a general economic crisis and market trends which were unfavourable for the sale of vehicles according to the European criteria, the Port nevertheless transshipped 378,318 vehicles in 2010, which was 21% more than in 2009 and 15% more than the planned quantity of cars. A trend of increased levels of throughput was also observed to and from the countries of the Mediterranean basin owing to more Asian car producers opening production facilities in Europe.

In 2010 we acquired a new business involving higher-priced vehicles for the markets of the Mediterranean countries.

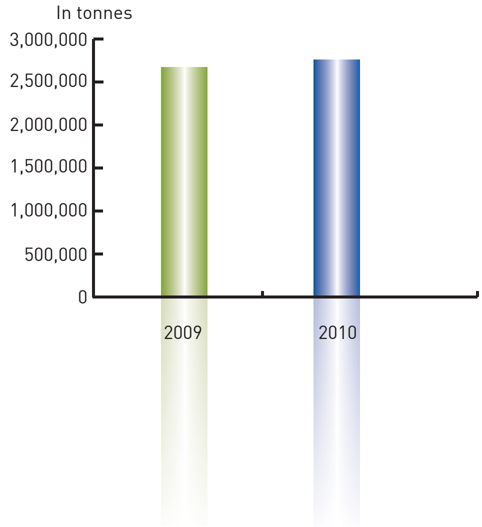
Liquid cargoes

Operations of the terminal for liquid cargoes consist of the transshipment of aircraft fuels, conventional energy-generating products and chemicals. The transshipped quantities of liquid cargoes were 7% lower than in 2009, but on the other hand the quantities of oil derivatives were 4% higher. At the end of 2010, the quantities of liquid fuels achieved an 89% realisation of the plan, whereas the quantities of oil derivatives surpassed the plan by 4%. In 2010 we completed construction of a new terminal for alcohol, which is already operating.

Dry bulk cargo

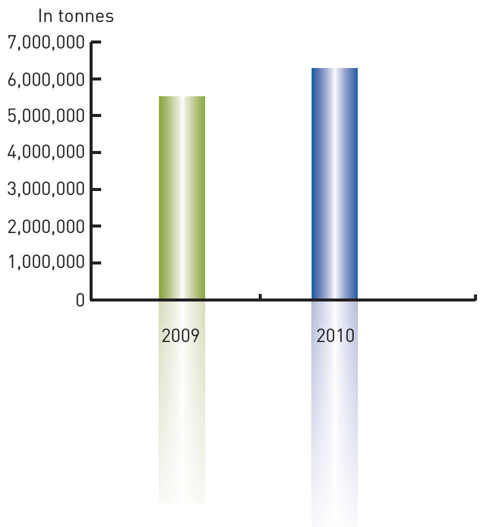
Throughput of dry bulk cargo is carried out at the dry cargo and coal terminals. The throughput of dry bulk cargo exhibited a 14% growth in 2010 with 6.4 million tonnes of transshipped quantities. At the end of 2010 the throughput of dry bulk cargoes achieved a 97% realisation of planned quantities.
At the coal terminal the throughput of iron ore and coal increases due to a revival of the iron industry and economy in Austria. The throughput of coal for Slovenia remained in the framework of planned quantities, but the throughput of coal for the Italian market was lower due to the current recession.
A record throughput of soybeans was recorded in 2010 at the dry bulk cargo terminal. As a result of the revival of economy, the throughput of industrial raw materials, such as minerals, scrap iron, phosphates, etc., has been slowly increasing. The throughput of cereals suffered a decline due to poor harvest in Hungary and uncompetitive transportation route through Slovenia and Luka Koper if compared to inland navigation routes and the Port of Constanza. The throughput of bauxite decreased in comparison with the previous year, nevertheless, a long-term contract for the lease of warehouse guarantees regular throughput.

Movement of liquid cargo maritime throughput



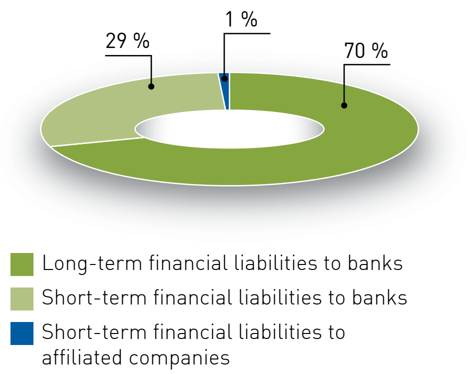
A record throughput of soybean was recorded at the dry bulk cargo terminal.

Movement of dry bulk cargo maritime throughput

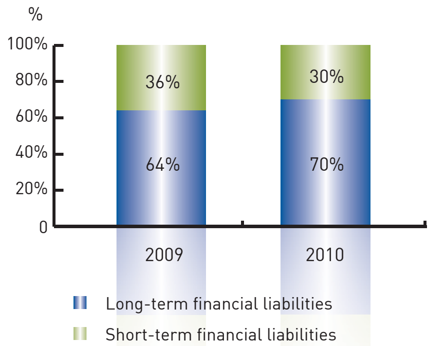


MANAGEMENT

Financial liabilities of the Luka Koper Group as of 31 December 2010



Structure of the maturity of financial liabilities of the Luka Koper Group as of 31 December



Our fundamental orientation regarding the structure of the liabilities is to continue the process of restructuring the existing financial liabilities with long-term liabilities.

Structure of maturity of liabilities

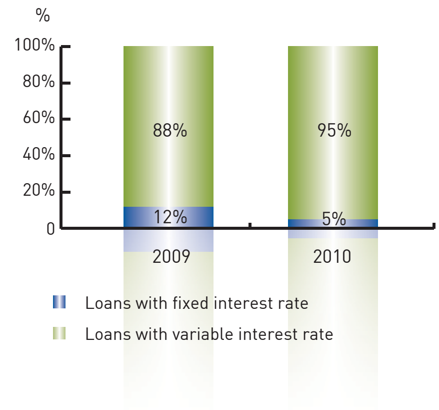
In 2010 the Group improved the structure of liabilities. Among financial liabilities the share of long-term financial liabilities at the Group's level increased to 70% and amounted to €158m on the last day of the year. The result is the consequence of two key events, the first one is a 15-year loan in the amount of €30m obtained from the SID bank in order to finalise the expansion of a container terminal on pier I of Luka Koper, and the other is the refinancing of due short-term loans with two more favourable long-term five-year loans in the total amount of €35m. This structure of the maturity of liabilities guarantees higher long-term liquidity for the Group and provides a solid starting point for stable operations under the conditions of the ongoing financial markets spasm. Thus, the Group will also continue to restructure its short-term financial liabilities in the future.

Financial liabilities to banks are mostly tied to variable interest rates. A fixed interest rate appears only with some short-term liabilities to banks. Due to a predominant share of a variable interest rate, the Group monitors the changes in the interest rates market on a regular basis, and plans in 2011 to establish the interest rate hedge to manage the interest rate-related risk for a part of its long-term financial liabilities.

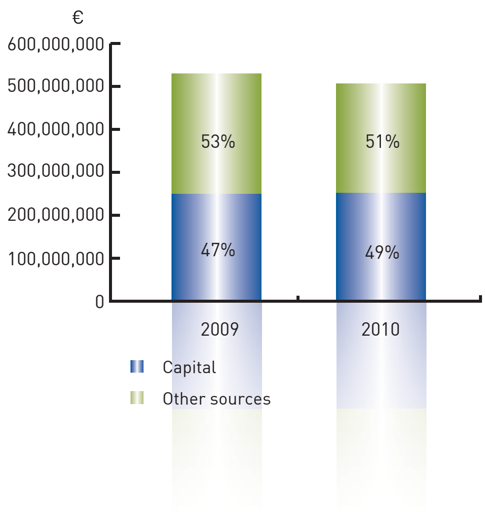
Structure of liabilities

In 2010 the Luka Koper Group noticed a slight change in the structure of the liabilities as the capital share increased by 2% increasing at the same time also the share of long-term financial liabilities. Our fundamental future orientation in this field is to continue the process of restructuring the existing financial liabilities with long-term sources. Our future plans encompass the financing of infrastructure projects through a specialised bank and the search for an optimal solution between low variable interest rates and hedge against interest rates risks.

Structure of financial liabilities of the Luka Koper Group as of 31 December

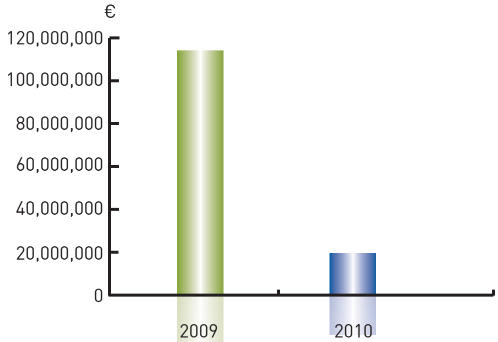


Structure of liabilities of the Luka Koper Group as at 31 December



INVESTMENTS IN NON-FINANCIAL ASSETS

Investments into intangible and tangible assets and investment property (from the Cash Flow Statement)



In accordance with the guidelines of regulations relating to environmental protection we have modernised the existing appliances and facilities in order to reduce emissions.

Seven new storage tanks for alcohol act as a distribution centre in the logistics chain for supplying Europe with alcohol.

Ports need continuous investments into the upgrade of their throughput capacities and the improvement of links with their hinterlands. This is why in 2010 most funds were allocated to the basic activity of the Port in compliance with the Company's strategic investment policy to enable intensive performance of its basic activity. A total of €20.2m was earmarked for investments, of which €18.8m was allocated to the controlling company. The capacities for throughput and warehousing of liquid cargoes and fruits were expanded. The equipment, which provides better conditions during throughput of goods and faster servicing of business partners, was purchased.
In accordance with the guidelines of regulations governing the environmental protection, we have modernised the existing appliances and facilities in order to reduce emissions.

New storage tanks for alcohol

With the investment in new storage tanks for alcohol, which was completed in May 2010, a cycle of several year investments into the terminal for liquid cargoes was concluded. Seven new tanks for alcohol, built in the western side of the existing terminal for liquid chemicals on pier I, act as a distribution centre in the logistics chain for supplying Europe with alcohol.
The function of the tank with volume of 5,750 m3 at the location of new storage tanks for alcohol was changed from the function of warehousing phosphoric acid into the function of warehousing alcohol and oil derivatives. By taking into account the volume of this tank, the total capacity of the new storage place for alcohol and oil derivatives will be 31,350 m3. Within this area a new moor for tankers has been built and equipped with a pumping point and three self-standing fenders for ships which are 190 meters long and have the bearing capacity up to 40,000 tonnes.
The alcohol terminal has been built in compliance with the latest technical directives to ensure safety at work and the prevention of environmental impacts. It meets the required measures for preventing serious damage from occurring during warehousing and provides safe mooring for larger ships as well as the safe acceptance and safe dispatch of cargo.
By building new storage capacities for alcohol at the terminal for liquid cargoes and in cooperation with a strategic partner with whom we are developing a distribution centre for the Central European area, we will continue to increase the throughput of liquid cargoes in the future.

Investments into enlargement of container throughput capacities

In the last years most investments at Luka Koper were allocated to a container terminal. In order to maintain the competitive advantage and to adapt to the requirements of business partners, the Company continued with modernisation as well as with technical and technological upgrading of the container terminal in 2010. Construction of hinterland areas on pier I was completed, linking the hinterland warehousing areas with the shore. Additional warehousing areas have been acquired for the storage of containers and operational work by using new cranes spanning the distance of 440 meters from the shore.

The increased container throughput led to the optimisation of throughput operations at the Port through the purchase of new equipment. Thus, in 2010 we gradually adapted all additional equipment for post-panamax cranes, and with the purchase of new holders for heavy cargos, we achieved optimal bearing capacity of bridge cranes for handling special and outsize cargos.

We installed additional control equipment on the warehouse cranes of the container terminal – transtainers, to adjust the rotations of a Diesel generator to the load of cranes and provide constant voltage to power the electric drive system. Such upgrading of cranes will reduce the consumption of fuel up to 25% and will decrease environmental burdening by reducing noise and emissions.

Due to limited space, the operations of the container terminal depend to a great extent on the ability to dispatch containers from the Port by train. Through the reconstruction of the existing tracks we have acquired an additional loading/unloading area where containers are transshipped to the railway. Taking into consideration the rapid increase of container transportation, we have created, by investing into a container terminal, an important infrastructural advantage in the south maritime transportation route, which is evidenced by the above-average growth rate of container throughput.

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New warehousing capacities

Due to the increased throughput of project and single cargos, the terminal for general cargoes needed space for warehousing heavy cargos. A hinterland moor 12 has been added for this purpose. Two years ago we built an earth dike on a part of this area in order to improve the bearing capacity of the area, which was removed in

2010. In this way, we additionally reinforced the area and acquired 11,300 m2 of additional warehousing area with a bearing capacity of 8 t/m2. These new areas offer the possibility to warehouse cargoes closer to the shore and to cut transportation costs to the general cargo terminal.
As regards the throughput of perishable goods, Luka Koper has been transformed in recent years from a throughput port into a distribution centre. To provide for the adequate distribution of goods, we converted warehouse 14 into a conditioned warehouse, whereas warehouse 16 has been isolated for the purpose of goods sorting and sanitising. The investment was partly concluded by the end of 2010, and the works are expected to be completed by April 2011.

Investments in ecology – ensuring sustainable development

Monitoring and managing environmental impacts have become a part of regular activities of Luka Koper. In order to establish a harmony with the environment, we earmarked in 2010 a portion of funds for a sustainable development of the Port in line with our strategic policy. We provided new lighting installations and renovated the old ones by observing their energy efficiency and use of highly efficient lamps with high pressure sodium bulbs.
In the framework of the programme of environment-friendly modernisation of the dry cargo terminal, we modified the area at the dispatch transportation line designed for transshipment from the warehouse TH-halls to vehicles. We installed a dust extraction system with bag filter from the interconnecting transporter between halls to a lifting crane, where dust is collected and returned by dosage system back to the cargo.
As regards ship-generated waste collecting and handling at the Port, we started in 2010 to elaborate project documentation for a Centre for pre-warehousing hazardous waste and ship-generated waste. This Centre will provide covered areas within the cargo port in Koper where such waste will be pre-warehoused, thereby reducing the environmental burden.

DEVELOPMENT ACTIVITY

The development of Luka Koper is essential for successful operation; therefore we pay special attention to development function. In 2010 we devoted attention to the infrastructural and technological solutions, the development of activity and offer, new approaches and process improvements, and to European projects.
We focused on the arrangement of internal processes, which encourage project management in order to systematically introduce the research activity, concentration of experience and generation of new know-how for the introduction of interdisciplinary solutions. In June 2010 we managed to register a research group at the Slovenian Research Agency, thus pointing out our inclination to increase the R&D work as well as our readiness for it, which will support the competitive and sustainable development of the Port.
On accounts of decreased investments in new assets, equipment and technical improvements, 2010 was marked with intensive R&D activities, in particular as regards the European projects, which is presented in the continuation of the report. Among the more important 2010 R&D activities are primarily the following process innovations:

- Upgrading the centralised project management system, enabling better control and consequently a better result of the projects;
- Beginning of container terminal's information support renewal;
- e-invoice (electronic confirmation and archiving of invoicing documents);
- Identification of the key quality operations indicators in the excellence model.

European projects

One of the key areas in terms of the Company's R&D activity is European projects comprising the management of national and European tenders and working on specific projects.
In 2010 we continued the European territorial cooperation projects which had started in the previous period and refer primarily to planning the transportation infrastructure, logistics concepts, environment protection, safety, marine protection, dangerous cargoes, and information updating. These are the SONORA, WATERMODE, CLIMEPORT, BACKGROUNDS and MEMO projects. Moreover, we gained three new projects: LOSAMEDCHEM, FREIGH4ALL and PORTA.
Two strategic projects relating to the Slovenia-Italy cross-border programme were approved: SafePort and Adria A. We have started carrying out activities on the Adria A project, which is primarily fo-

cused on promoting mobility and passenger transport in the cross-border area. Due to certain status and administration complications, we expect the SafePort project to be continued in 2011.
In terms of Community programmes, we again started the KOBALINK project of the Marco Polo programme in June 2010, which was stopped for six months due to lower automobile traffic on Koper-Barcelona route than expected. In March 2010 we took up a new project in the Marco Polo programme, called HINTERPORTS, which comprises the activities of joint learning and transfer of good practices in terms of the cooperation of ports with hinterland terminals. In June 2010 we concluded the project of the 7th framework programme called StarNetRegio, which commenced in 2008.
In 2010 we applied for the TEN-T maritime highways promotion programme tender for the first time. We acquired two projects, which will commence in 2011. The first project is the ITS Adriatic Gateway, where we cooperate with other ports included in NAPA, and the second one is MOS4MOS, which follows the initiative of the Spanish ports. Besides Luka Koper, another Slovenian partner included in the project is Intereuropa, d. d.
In 2010 we applied for more new projects, two of which were approved – EMPIRIC and LOGICAL. Both projects are a part of the Central Europe programme. We will commence implementation in 2011.
The majority of the European projects are co-financed at 85% or more. Compared to 2010, we expect the extent of the received funds to double in 2011.

THE LKPG SHARE

In 2010 the value of the Luka Koper, d. d. share (LKPG) was 26% lower than the year before. The downward trend, which started prior to 2010 and continued throughout the year, is chiefly a consequence of the situation on the Slovenian capital market and of still poor profitability of the Luka Koper Group. In spite of this, major development opportunities of Luka Koper provide guarantee for long-term and stable growth of Luka Koper, d. d., and the value of its share.

The ownership structure of Luka Koper, d. d. experienced no major changes in 2010. As at 31 December 2010, the Company had 14,198 shareholders, with the biggest shareholder remaining the Republic of Slovenia jointly with its two funds Slovenska odškodninska družba and Kapitalska družba.

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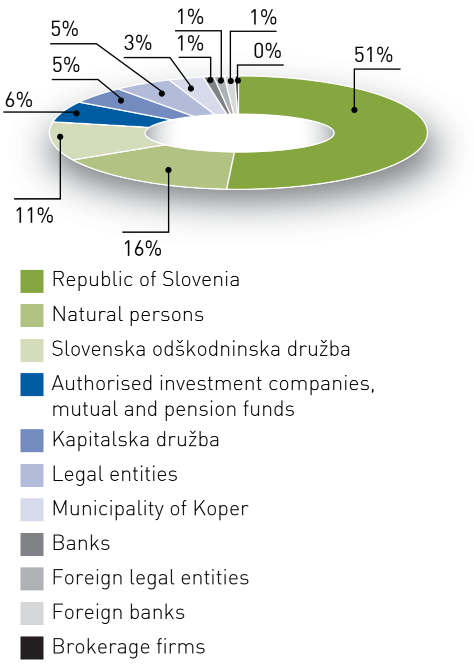
Ten largest shareholders as at 31 December 2009 and 2010

Shareholder	Number of shares as at 31. 12. 2009	Number of shares as at 31.12.2010	Equity stake 2010
Republic of Slovenia	7,140,000	7,140,000	51.00%
Slovenska odškodninska družba, d. d.	1,557,857	1,557,857	11.13%
Kapitalska družba, d. d.	712,304	712,304	5.09%
Municipality of Koper	466,942	466,942	3.34%
KD Galileo, flexible investment structure	152,265	152,265	1.09%
KD ID, delniška ID, d. d.	149,882	149,849	1.07%
Perspektiva FT, d. o. o.	110,895	125,895	0.90%
Mutual fund Triglav Steber I	114,859	114,859	0.82%
Zavarovalnica Triglav, d. d.	104,756	104,756	0.75%
Vidmar Nevenka	85,719	85,719	0.61%
Total	**10,595,479**	**10,610,446**	**75.79%**

Ownership structure of Luka Koper, d. d. as at 31 December 2009 and 2010

Shareholder	Number of shares as at 31. 12. 2009	Number of shares as at 31.12.2010	Equity stake 2010
Republic of Slovenia	7,140,000	7,140,000	51.00%
Natural persons	2,342,127	2,258,846	16.13%
Slovenska odškodninska družba	1,557,857	1,557,857	11.13%
Authorised investment companies, mutual and pension funds	866,053	810,203	5.79%
Kapitalska družba	712,304	712,304	5.09%
Legal persons	531,784	632,806	4.52%
Municipality of Koper	466,942	466,942	3.34%
Banks	171,936	176,506	1.26%
Foreign legal entities	95,284	153,700	1.10%
Foreign banks	83,901	56,401	0.40%
Brokerage firms	31,812	34,435	0.25%
Skupaj	**14.000.000**	**14.000.000**	**100,00 %**

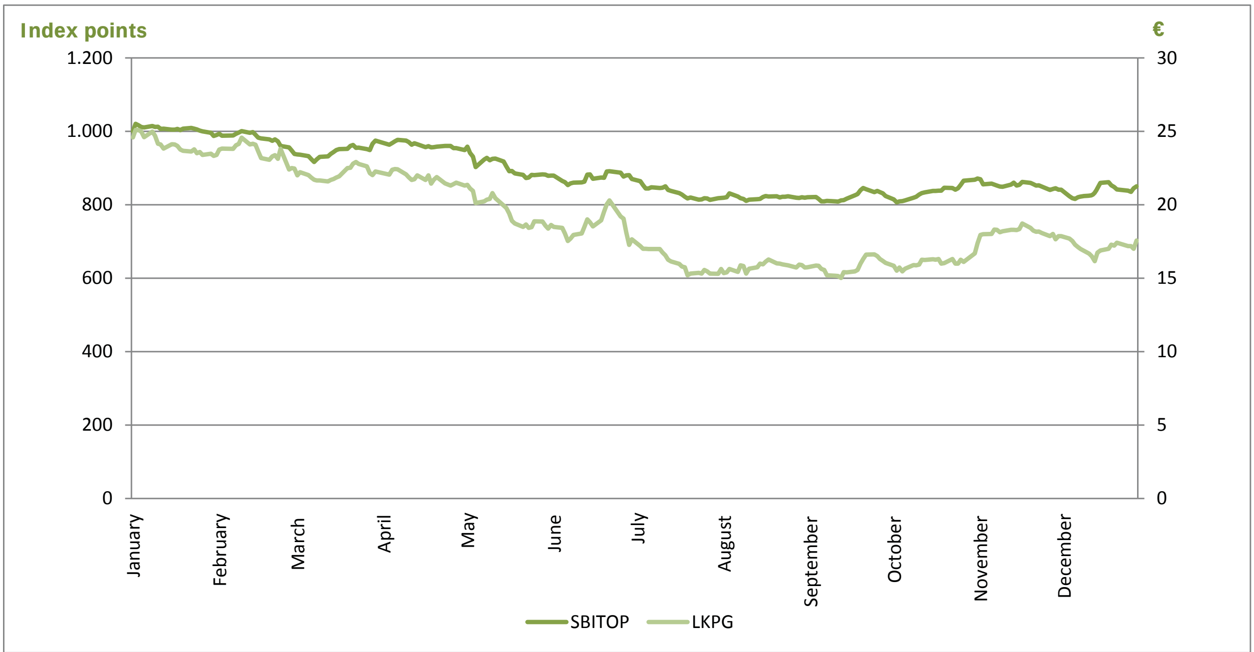
Ownership structure of Luka Koper, d. d. as at 31 December 2010



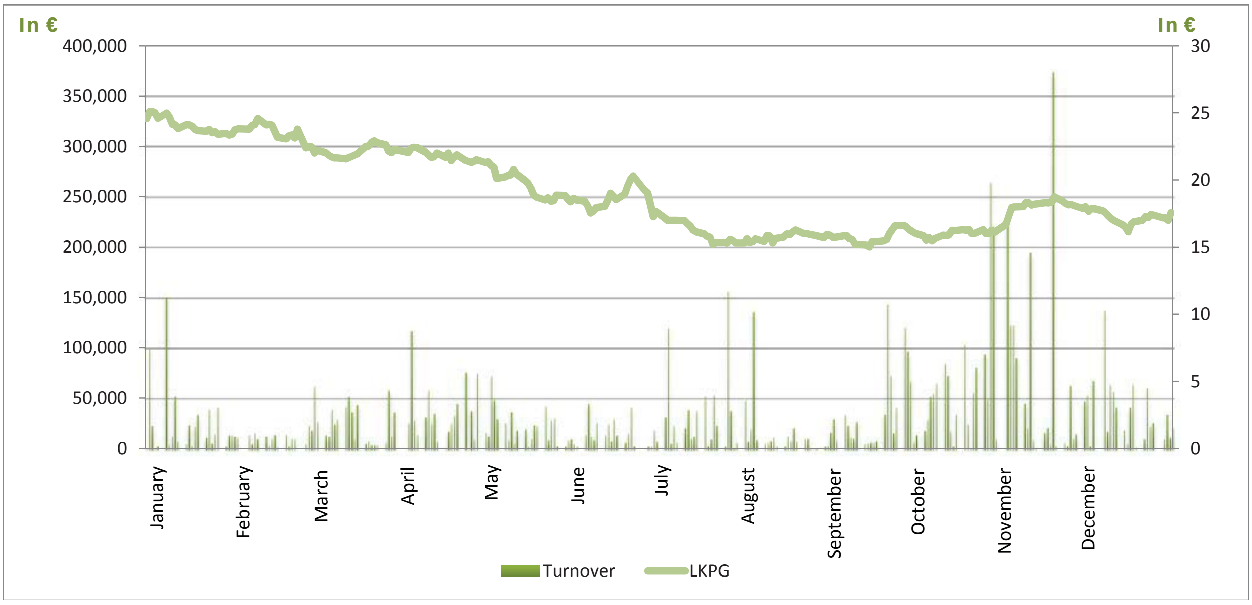
LKPG share trading

In 2010, the average daily share price for Luka Koper, d. d. was €19.03. Its value fluctuated between €15 and €25 throughout 2010. The highest market price of the share was €25.23 and the lowest was €14.96. On 31 December 2010, the market cap of Luka Koper, d. d. shares totalled €245,840,000.
In the first half of 2010, the value of the LKPG share decreased in comparison to the Slovenian blue chip index, SBITOP, whereas in the second half of the year it moved parallel to SBITOP. The annual fall in the SBITOP value exceeded the average daily price per LKPG share by just under 13 percentage points at year end. The total number of stock-exchange transactions and deals with lots for the share was 3,452. The total turnover in this period amounted to €8,204,336, with ownership changing of 454,189 shares.

Changes in SBITOP and average daily LKPG price in 2010



Changes in the LKPG share price and daily turnover in 2010



Key data about LKPG share in 2009 and 2010

	2009	2010
Number of shares	14,000,000	14,000,000
Number of ordinary no par value shares	14,000,000	14,000,000
Share price on the last trading day of the year (€)	23.84	17.56
Share's book value as at 31 December (€)	17.02	16.81
Price-Book value Ratio (P/BV)	1.4	1.04
Average weighted market price (€)*	24.07	18.06
Average share book value (€)**	21.5	17.18
Average weighted market price/Average share book value ratio	1.14	1.05
Net earnings per share (EPS) (€)	(4.23)	(0.17)
Average weighted market price/Earnings per share ratio	(5.69)	(106.24)
Share price/earnings ratio (P/E)	(5.64)	(103.29)
Market capitalisation as at the last day of the year (€m)	333.76	245.84
Total share trading (€m)	12.05	8.2
Dividend per share (€)	—	—

*Average weighted market share is calculated as the ratio between total turnover, arising from ordinary (stock exchange) transactions and the quantity of LKPG shares traded in ordinary (stock exchange) transactions.

** Average share book value is calculated based on the average monthly ratio between capital and the total number of ordinary shares.

Dividend policy

The dividend policy of Luka Koper, d. d. represents a harmonised combination of the wish for dividend yields of the owners, and the wish to use the net profit for financing investment plans. In light of the operating results, the Company does not plan a dividend payment for 2010. Nevertheless, we plan for the Company to intend in the future years up to one third of the net profit of a period, considering the investment plans in port infrastructure and equipment. Luka Koper, d. d. ended 2010 with a net profit of €2.4m, and has therefore already covered the established net loss when preparing the 2010 financial statements by means of a reversal of other profit reserves accumulated in the past. Pursuant to the decision of the 18th General Meeting, the Company did not pay out dividends.

Cross-linkages with other companies

The only company in which Luka Koper, d. d. holds at least a 5% interest and which owns shares of Luka Koper, d. d., as at 31 December 2010, is Intereuropa, d. d., with a 24.81% share. Intereuropa, d. d. had a 0.03% interest in Luka Koper, d. d. Shareholders, holding at least 5% of the LKPG shares are the Republic of Slovenia (51.00%), Slovenska odškodninska družba, d. d. (11.13%) and Kapitalska družba, d. d. and its funds (5.09%).

Share ownership by members of the supervisory board and the management board

	Shareholder	Shares owned as at 31 December 2010
Supervisory Board	Marko Simoneti, D.Sc., Member	590
	Nebojša Topič, Member	9
Management Board	Gregor Veselko, D.Sc., Chairman	20
	Capt. Tomaž Martin Jamnik, Deputy Chairman	80

As at 31 December 2010, the other Members of the Supervisory Board and Management Board of Luka Koper, d. d. do not own any shares in the Company.

Treasury stock, authorised capital, conditional capital increase

As at 31 December 2010, Luka Koper, d. d., held no treasury shares. The applicable Articles of Association of Luka Koper, d. d., do not provide for category of authorised capital up to which the Management Board could increase the share capital. The Company also had no basis for a conditional increase in its share capital.

Rules on restrictions on trading in shares of the company and related parties

According to the recommendations of the Ljubljana Stock Exchange, Luka Koper, d. d., drew up the Rules on Trading in Issuer Shares, which is an additional guarantee for equal informing of the interested public on all significant business events in Luka Koper, d. d. The purpose of the Rules is to enable the persons liable to it trading in shares of Luka Koper, d. d., and to prevent any possible trading based on insider information. At the same time, the Rules enable mandatory reporting in accordance with the law on the sale and purchase of the Company's shares to the Securities Market Agency.

Communications with investors

We regularly communicate with our investors and keep them informed on Company news through various communication tools and channels:

- SEOnet
  According to the legislation, shareholders and the public are informed of operational results and all important business events in a timely manner via SEOnet, whilst information is provided to shareholders and investors also through other communication channels.
- Website
  A special chapter headed "For Investors" is devoted to shareholders and investors on our web-site where they can find up-to-date information regarding the LKPG share, ownership structure, current interim, annual and past operating reports, information published on SEOnet, material for General Meeting of Shareholders, answers to most frequently asked questions and opinions of individual analysts.
- Notice and Luški delničar
  We also publish e-newspaper "Notice", of which two issues were published in the past year. Prior to every General Meeting of Shareholders, we issue and send to the shareholders newspaper Luški delničar, which in addition to the Agenda of the General Meeting includes also current information of the Company's performance and its business plans.
- Events
  Furthermore, investors are informed of the Company's performance and innovations at the events organised by the Ljubljana Stock Exchange. In May 2010 we participated at the Presentation of Slovene Capital Market in Ljubljana; in September we made the first virtual presentation – webcast, in November, we participated the international roadshow in Vienna, where we presented ourselves to investors from Central and Southeast Europe, and at the end of the year, we also participated in a meeting with Slovenian analysts of stock brokerage companies in Ljubljana.

Investor information is available at the following web address:
www.luka-kp.si/slo/za-vlagatelje

Contact person:
Rok Štemberger
Investor Relations
Tel.: 05 66 56 140
Fax: 05 639 50 20
E-mail: rok.stemberger@luka-kp.si

Calendar of major publications in 2011

Scheduled date of publication/event	Vrsta objave/dogodka
28.2.2011	Publication of non-audited, non-consolidated financial statements for 2010
26.4.2011	Publication of the Statement of Compliance with the provisions of the Governance for Public Limited Companies Publication of the Annual Report 2010 Publication of the Annual Document
30.5.2011	Publication of the Operational Report for the first quarter of the financial year
July (28th week)	Session of the General Meeting of Shareholders
Second working day after the General Mee-ting of Shareholders	Dividend eligibility day
29.8.2011	Publication of the six-monthly Report of the Company's operations
27.10.2011	Dividend payment
28.11.2011	Operational Report for the first nine months of the financial year

*Intended publications and other sensitive information as well as any changes to estimated date of individual publications are regularly publicised on the Ljubljana Stock Exchange website via electronic information system SEOnet (http://seonet.ljse.si/) and on our own website www.luka-kp.si. As a rule, the annual document containing a list of all information published on SEOnet over the past 12 months, is also published on both these websites in the Slovene and English languages.

RISK MANAGEMENT

The Luka Koper Group is primarily exposed to strategic, operating and financial risks.

Efficient risk management is essential to ensure stable, safe and long-term operations, and contributes to the performance of the activities for reaching the strategic goals and even changes some risks into opportunities. The Luka Koper Group is primarily exposed to strategic, operating and financial risks.

Risk management is the responsibility of the Management Board. In close cooperation with the internal auditor, controlling department and quality department, as well as other professional services, the Management Board ensures that the risks we are exposed to are understood, that risk management controls exist and function, and that changes in the environment are forecast accurately. Determining the type of risks, assessing the level of exposure and implementation of an integral risk response are those most important aspects of our business policy, which is why we carry out regular internal and external assessments and inspections of our operations.

Review of risks with Management Board's assessment of the risk exposure

TYPE OF RISK	MANAGEMENT BOARD'S ASSESSMENT OF RISK EXPOSURE		
	LOW	MODERATE	HIGH
STRATEGIC RISKS			
Port system risk		●	
Logistics system risk		●	
Institutional system risk		●	
BUSINESS RISKS			
Investment risk		●	
Human resource risk			●
Information system risk		●	
Environmental risk		●	
Legislative risk		●	
Profitability risk		●	
FINANCIAL RISKS*			
Fair value risk		●	
Interest rate risk			●
Currency risk	●		
Liquidity risk	●		
Credit risk	●		
Capital structure risk		●	

* Financial risk management is comprehensively covered in the Consolidated Financial Report and the Financial Report of Luka Koper, d. d.

Strategic risks

Strategic risks are divided into three major groups which are strongly interlinked:

- Port system risks
- Logistics system risks
- Institutional system risks

Port system risks

The appropriate and timely adaptation of the port system's offer to the needs of economic activities and development of the new port and the transportation infrastructural capacities of competitors, the corresponding incorporation of this offer, as well as the financing of new investments are the key components that define the port system.

We are striving to maintain our market position with services of sufficient quality and reliability for existing transactions, and through the prompt provision of sufficient capacities to accept new cargoes. At this point, it should be pointed out that our competitors' forecasts for building new capacities are very ambitious, and, at the same time, we are facing important obstacles regarding the adoption of the National Spatial Plan, as well as the public port infrastructure method of finance and time limitations. It is important that, in addition to port capacities, an efficient connecting infrastructure, which will supplement the growth and development of the port system, is established in a timely manner. The port system is also connected with financing public port infrastructure, which is in the domain of the concessionaire, i.e. Luka Koper, d. d., in accordance with the provisions of the Concession Agreement.

Management Board's Assessment: Port system risk is moderate; with properly defined measures for risk management, the probability of damage is moderate.

Logistics system risks

In terms of strategy, the efficiency of the Port in wider logistics activity and in transport routes for goods – with a clearly defined focus on the flow of goods to Luka Koper – is of particular importance.

Within strategic risks, we are striving to maintain market position with suitable quality and reliability of services for existing transactions, and through the timely provision of sufficient capacities to accept new cargoes.

Forging long-term partnerships with logistics providers, joint ventures in the market and openness towards all logistics operators, as well as ensuring effective and efficient port-hinterland connections are the measures intended for managing this group of strategic risks.

Management Board's Assessment: The logistics system risk is moderate; with properly defined measures for risk management, the probability of damage is moderate.

Institutional system risks

The Port of Koper is the subject of strategic national interest. Its development also depends on balanced integration in the local, regional and national communities, and consequently also on suitable organisation and cooperation with all competent bodies at local and national levels. Intensive efforts made towards establishing systematic and efficient cooperation with all competent bodies contributes significantly to the management of this group of strategic risks.

At this point, the time interval in the adoption of the key Spatial Plan should again be highlighted (read more about this in the chapter headed National Spatial Plant). The provisions of the Concession Agreement (read more about this in the chapter headed Activities of the Luka Koper Group), should be discussed, particularly those referring to the concession fee and the model of financing the operation and development of the port system, and which affect business performance and also, potentially, the developmental adaptability of Luka Koper.

Management Board's Assessment: Institutional system risk is moderate; with properly defined measures for risk management, the probability of damage is moderate.

Business risks

Business risks are those that are associated with the ability to generate revenue, profit and cash flow for the Group, and include:

- Investment risks
- Human resource risks
- Information system risks
- Environmental risks
- Legislative risks
- Profitability risks

Business risks are managed by the Controlling and Quality Departments. We regularly carry out internal processes assessments and report to the management on the efficiency and accuracy of the operations of organisational units.

Investment risks

At the Luka Koper Group level, we devote significant attention to the preparation of the preliminary studies of an individual investment opportunity's economic eligibility. Investments in long-term assets are exposed to the key risk in the business environment, i.e. insecurity in economic activity performance. In accordance with this, we have decided to realise only the investments, the expected returns of which unambiguously express the economic eligibility. We are constantly improving the procedures for preparation, implementation, activation, and primarily the mechanisms for monitoring the investment realisation and its expected return.

Management Board's Assessment: Due to a high level of investment in recent years, and significant impairments, which were unavoidable in 2010, the Management Board of the Company is of the view that we successfully manage investment risk with established investment realisation monitoring mechanisms, and so the probability of damage is moderate.

Human resource risks

In the uncertain business conditions of 2010, the key human resource risks identified were as follows:

- Availability of labour force as regards the increase in throughput, and also as regards the overreliance on a group of employees in specific job positions (crane operators) particularly due to the objective specifics in the qualification of such a profile; and
- Motivation of the labour force.

The availability of the labour force was ensured as follows:

- With constant business process optimisation process and the migration of employees in organisational units during the year;
- With limitations on recruitment for most parts of the year or with new employees only in those areas where necessary for process management;
- By establishing a balanced proportion between regularly employed staff and other port services providing for specific types of work.

The key activities designed to motivate the labour force include:

- The provision of social security and ensuring job security;
- Regular monthly salaries and the consistent implementation of the employee motivation system;
- Cooperation between Company management and employee representatives;
- Career development and financing education;
- Consistent use of all other types of non-cash motivation of employees.

Read more about human resources and human resources policy in the chapter headed Human resource management.

Management Board's Assessment: Human resource risk in the Luka Koper Group is high; with properly defined measures for risk management, the probability of damage in the Group is moderate.

Information system risks

The smooth functioning of the information system is of vital importance for the successful implementation of business processes in the Group and, therefore, we mitigate these risks through a variety of measures. Major risks related to the functioning of the information system include:

- Ensuring the stable development of the information system,
- Reaching suitable levels of information solution user satisfaction,
- Identifying irrational processes preventing their duplication,
- The supervision of errors, abuse, assets and data theft,
- Comprehensive system for granting access to data, and
- The quality and suitability of data.

The above risks are managed by the outsourcing of information support services, which are provided by Actual I.T., d. o. o., Koper, and mitigated as a result of established good business practice proven by the stable functioning of the information system. Our contractual partner holds the ISO/IEC 27001:2005 information management certificate for the information management system, whereas the long-term contract renewed in 2009 provides assurances that the contractual partner cannot access data in information systems without the physical presence of a Company employee. All this contributes to a stable and secure information system.

Management Board's Assessment: due to established risk management mechanisms, the risks arising from operation of the information system are moderate and as a result of the measures taken to mitigate risk, the probability of damage is moderate.

Environmental risks

We incorporate all the necessary know-how and available information in all development and investment projects in order to find the most optimal solutions, which ensure environmental acceptability and economic feasibility.

At the Luka Koper Group level, we prepare and maintain a list of potential environmental and occupational risks, and assess the risk of major incidents occurring.

Potential risks to environment and employees include:

- Risks arising from port activities:
    - Incidental spillage of chemicals,
    - Technical gas leaks,
    - Risk of infection when handling hazardous waste,
    - Exposure when handling hazardous substances,
    - hazard, risk of major incidents (SEVESO directive),
    - Chemical poisoning, and
    - Noise pollution.
- Risks related to the global policy concerning energy (the efficient use of energy resources),
- Risks related to harmonisation with legislative amendments.

When developing the system of environmental management and safety at work and occupational health, we follow the guidelines of prevention, meaning we include the environmental views (and other

related areas) in the formation of new procedures and technologies or in the transformation of those existing. We incorporate all the necessary know-how and available information into all development and investment projects in order to find the most optimal solutions, which ensure environmental acceptability and economic feasibility.
The area of the Port includes the operation of approximately 200 companies, which carry out all sorts of activities (office activities, warehousing, maintenance, service, etc.). Their activity can influence the quality and condition of the Port environment. We have concluded contracts with all users inside Luka Koper, where requirements regarding the fulfilment of legislative and port regulations for the area of environmental preservation and occupational health are defined.
We carry out practical tests of emergency measures at least every 18 months in order to check the entire plan of protection and rescue in the event of hazardous substances incidents. We organise internal workshops on environmental risk issues on an annual basis.

Management Board's Assessment: Due to the adoption of preventive measures, the environmental risks are moderate, and the undesired environmental impacts below the statutory prescribed limits.

Legislative risks

Legislative amendments and the interpretation of the legislation are the key elements of legislative risks. We manage the risk through ongoing monitoring and consistent implementation of regulations, legal protection in case of non-compliance with other applicable regulations in the Republic of Slovenia and with the Constitution of the Republic of Slovenia, and with the possibility of adapting the Company's operations to newly amended regulations.

Management Board's Assessment: Exposure to legislative risks is moderate; with properly defined measures for risk management, the probability of damage due to this group of risks is also moderate.

Profitability risks

Profitability risks are connected with potentially diminished ability of the Company and the Group to make profit. The profitability risk management is a consequence of the management of the risks that have an important influence on the future development (strategic and particularly investment risks) and on revenues (sales risks), and of the management of the factors that have an important effect on expenditure.

We manage the profitability risk through activities focused on business rationalisation, the gradual reorganisation of business processes, and through financial policy measures focused on achieving a harmonised finance source structure, which will enable the parent company and the Group to maximise value.

Management Board's Assessment: Profitability risks are assessed as moderate; the probability of damage in the Group is also moderate.

Financial risks

The financial risk management of the Luka Koper Group is centralised in the finance department of the parent company. Such financial risk management enables a sufficiently flexible response to the changes in the economic and financial environment, contributing to the increased operational stability of the entire Luka Koper Group. The major financial risks to which the Luka Koper Group is exposed include:

- Fair value risk
- Interest rate risk
- Currency risk
- Liquidity risk
- Credit risk
- Capital structure risk

The Finance Department regularly and systematically supervises these risks. This provides the necessary conditions for achieving the planned categories, primarily future cash flows.
The fair value risk is evident primarily in the fluctuation of value of investments carried at the fair value. In 2010 we adopted the investment management policy, which among other things determines a sale all of the investments that are not determined as (other) strategic investments, i.e. those the activity of which is directly linked to the parent company's strategic orientation.
In the existing structure of liabilities, currency risk represents a relatively important challenge due to unfavourable fluctuation of interest rates. In 2010, we were not actively insured against currency risk, although we regularly monitored the events on the monetary market.
A negligibly low share of accounts receivables in US dollars limits the importance of the currency exchange risk.
In order to mitigate liquidity risks, we actively pursued our newly-established policy towards customers in 2010, particularly in the area of collecting, regular communication and monitoring our buyers' performance.
In the given conditions, credit risk is strongly connected with liquidity risk. We should mention a security right on warehoused goods, specific for our operations, and insurance of some types of receivables with guarantees, which significantly decreases the credit risk.
The fast organic growth of the parent company had a positive effect on the adequate capital structure risk in 2010, as the extent of debts decreased in 2010. The introduced investment measures enable a significantly higher level of managing the envisaged cash flow and consequently more efficient management of needed sources of financing. The Group's equity represents 49% of the balance sheet total.

A detailed description of financial risks and assessment of the Management Board regarding financial risks are provided in Note. 29 in the Financial report of Luka Koper, d. d.

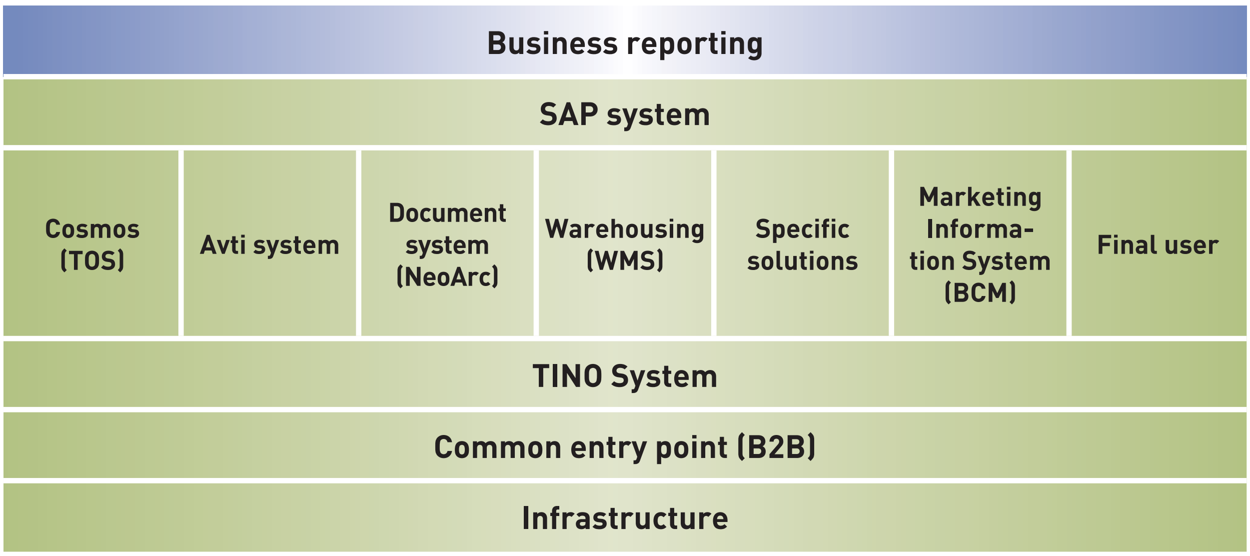
INFORMATION SUPPORT

We are proud of the fact that our customers have ordered services with Luka Koper, d. d. for over a decade solely through computed data exchange. Communication runs securely and based on open standards through a single point of entry and based on different competitive applications. It should also be pointed out that the information system of Luka Koper, d. d., simultaneously efficiently connects and supports subsidiaries and enables further expansion and connection of both the environment as well as newly established companies.

Outsourced comprehensive services of information support

The Luka Koper Group is one of the few business entities on the Slovenian territory with fully outsourced information support. Information support to the Luka Koper Group is provided by the outsourcer Actual I.T., d. o. o. We are building partnership with our outsourcer on a good business practice, whereby it is determined with precisely defined umbrella agreement, contracts on ensuring a level of services, and with continuous verification of the competitiveness of offers.

Fundamental constructs of the Luka Koper Group's Information system in 2010



We have identified the potential risks arising from such a relationship with outsourcer and which could lead to interruptions in the information system operation, assessed the exposure and determined the measures to manage them (read more about risks in the chapter headed Risk Management).

Introduction of new projects to daily activities

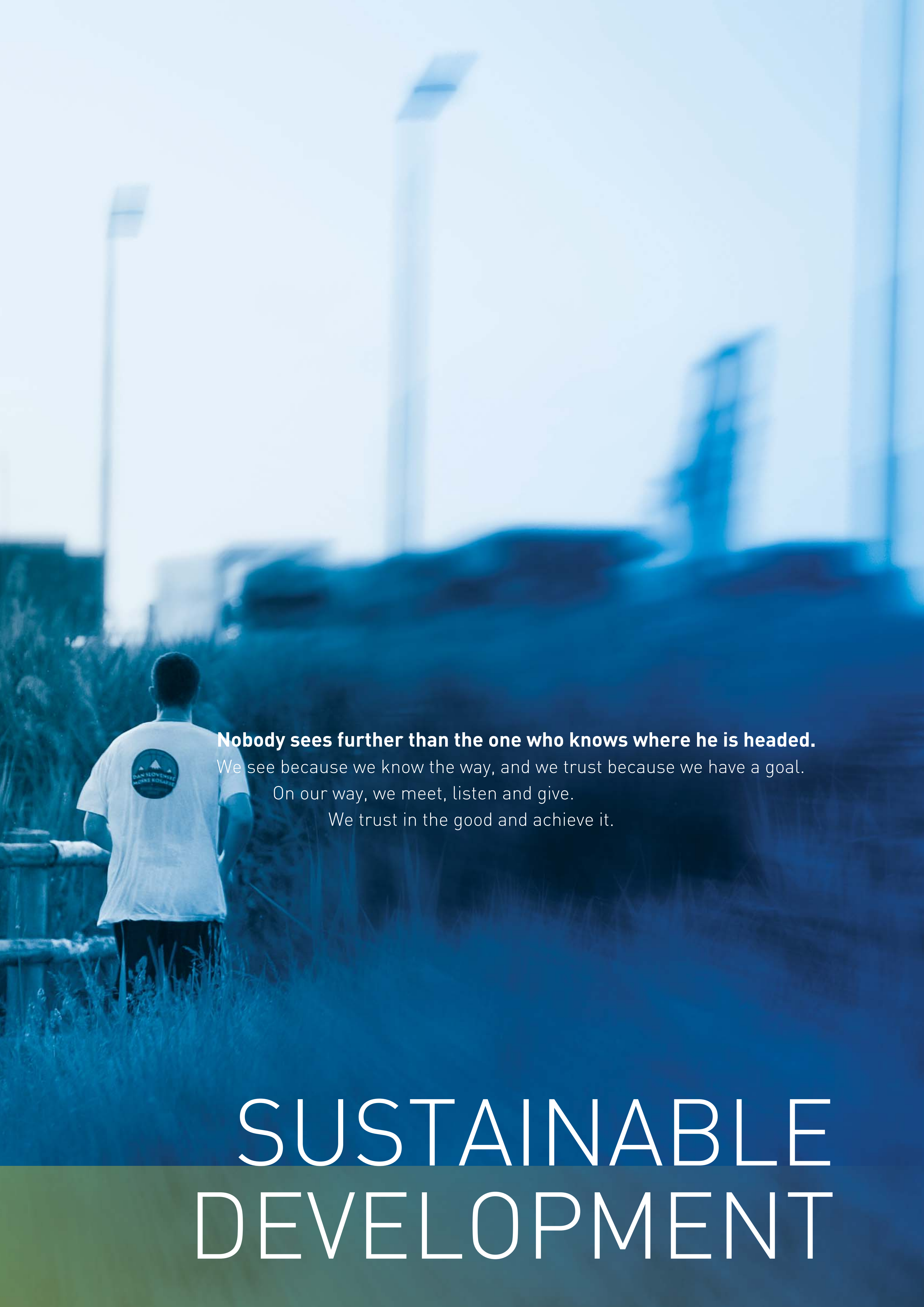
In 2010, we successfully completed several projects:

- Printers rationalisation project, decreasing printing costs by over 12%;
- e-invoice system introduction, putting an end to the circulation of paper documents for confirmation in Luka Koper, d. d., and which will also eliminate the future physical storage of invoices;
- Physical archive informatization project and archiving process updating;
- Introduction of application for keeping physical archive with bar code readers, within which we have prepared a suggestion of a new organisational regulation.

In the first half-year, we devoted much attention to the inventory of processes supported within the documentary system and the existing intranet. The new documentary system will be based on web platform and will include functionalities of the documentary management system (ISO), e-leaves, e-invoice, the Management Board sessions management, keeping of contracts, offers, documentation related to occupational safety, managing of project office, information requirements, functionalities of the existing intranet and other functionalities of the existing documentary system.

We have also started the first implementation phase of the TOS system for container terminal, finished the negotiations with the selected providers, and founded a project group to manage the system replacement project.

In the first half-year, we devoted much attention to the inventory of processes supported within the documentary system and the existing intranet.



Nobody sees further than the one who knows where he is headed.

We see because we know the way, and we trust because we have a goal.

On our way, we meet, listen and give.

We trust in the good and achieve it.

SUSTAINABLE DEVELOPMENT

One of the more important principles of the Luka Koper operation is to maintain the natural balance.

One of the more important principles of Luka Koper operation is maintaining a natural balance. At Luka Koper, we are aware of the influence our activity has on the wider area; therefore we endeavour to attain realistically measurable goals through different activities, which will additionally contribute to keeping the Port green as well as keeping everyone satisfied.

We carry out business functions in the way which meets the standards and expectations of both the corporate as well social environment. By supporting different organisations and individuals in our corporate and social environment, we have cared and will continue caring for the local health, education, sport and culture. In terms of development issues, we will continue following the principles of sustainable development and responsible environmental management, thereby reaching suitable solutions to this increasingly complex issue, which is a part of our daily lives. All the employees are therefore bound to fulfil the legal requirements and standards in the field of environmental protection, and occupational health and safety.

We ascribe particular importance to quality in terms of sustainable development, which is why we have established the ISO 14001, ISO 9001, BS OHSAS 18001 and ISO 22000 systems in this area. In 2000, we established the environmental management system in accordance with the requirements of the ISO 14001 standard, and in 2009, we also established and verified the environmental management system in accordance with the EMAS scheme.
With socially responsible operations, we contribute to the improvement of living conditions in the local and broader community. We provide work to many locals, while at the same time we care for the quality of life in the community. We provide detailed information on events at the port to the public on the website www.zivetispristaniscem.com with the goal to further approach the port operations to the local population.

NATURAL ENVIRONMENT

Ours is the only port in the North Adriatic with quality systems implemented for environmental protection, occupational health and safety, the safety of foodstuffs, etc. We will continue to pursue our goal to keep Luka Koper a friendly port with a clean sea, and recognised globally in this respect.

EMAS certificate

After several years of endeavours, we were awarded the EMAS certificate. The EMAS system is an upgraded version of the already established environmental management system (ISO 14001), and most of all it serves as proof that in the field of the environment and interventions in it, the Company acts in accordance with existing legislation. The certificate is awarded by the Ministry of the Environment and Spatial Planning, or, more precisely, the Environmental Agency of the Republic of Slovenia. In Slovenia, the EMAS certificate was awarded only to two more companies: Gorenje, d. d., and Cinkarna Celje, d. d., with Valencia being the only European port apart from us to be awarded the certificate.
Besides the compliance with the legislation and constant improvement of the environmental management effects, the EMAS system requires objective and regular valuation of the system performance, provision of information on environmental performance, an open dialogues with public and other interested parties, active engagement of employees in organisations and suitable trainings for them.


REPUBLIKA SLOVENIJA
MINISTRSTVO ZA OKOLJE IN PROSTOR
AGENCIJA REPUBLIKE SLOVENIJE ZA OKOLJE

POTRDILO

O REGISTRACIJI V SISTEMU EMAS

1. Organizacija:

Luka Koper, d.d., Vojkovo nabrežje 38, 6501 Koper

2. Obseg registracije:

Lokacija:
Vojkovo nabrežje 38, Koper
Dejavnost iz standardne klasifikacije dejavnosti:
52.24 Pristaniške storitve pretovarjanja in skladiščenja blaga ter dodatne storitve na trgu

3. Registracijska številka organizacije v sistemu EMAS:

SI-00004

4. Datum vključitve v EMAS: 30.12.2010

5. Registracija velja do: 30.12.2013

Ljubljana, 20.12.2010

dr. Silvo Žlebir
generalni direktor

Care for environment

We take continuous care for air quality, and have therefore strived for a reduction of emissions into the atmosphere, which are generated during the port activity, for several years. The legally determined measures are regularly carried out by authorised organisations, and we reach above-average results at all measurement points.
In 2010, we started a project of creating a model of dust spreading into and outside the Port in cooperation with the Primorska Institute of Natural Sciences and Technology, which will serve to accurately establish the actual impacts of the Port and other factors on the atmosphere.

Total amount of dust at the port

The total amount of dust (dust deposits) is measured at ten points at the Port, even though these measurements are not required by the law. During the last two years, we have noticed that the total amount of dust is higher at some of the points, which is a consequence of the development of Luka Koper. In particular, this is a case of intensive construction works in the extension of piers I and II, where most construction works stopped in 2010. The increased values at some points are also a consequence of the transshipment activities of dry cargoes terminal, which is why we started a dust reduction project for transshipment of such cargoes in 2010.
In 2010, the total amount of dust at the Port was below the target value of 470 mg/m2/day.

Amounts of PM_{10} particles

At the Port, we also separately monitor the presence of dust particles less than 10 μm (PM_{10}), in the direction from Ankaran and Bertoki. The measurements are carried out by authorised organisations with the most modern measurement equipment. The annual average of measurements in the Ankaran direction is 24.9 μg/m^3, and in the Bertoki direction 16.1 μg/m^3. Both values are below the statutory determined value of 40 μg/m^3 and within the set goal of 30 μg/m^3.
The results of (PM_{10}) measurements from measurement stations in the Ankaran direction and Luka Koper are available on the Port's sustainable development portal www.zivetispristaniscem.si.

Emissions of dust particles on key sources

Since the permitted values of dust particles emissions on key sources are stipulated by law, we perform measurements in the close vicinity of the dust-generating source, (e.g. at loading/unloading of wagons, lorries and ships). On each measuring place there are several measuring points; the number of measurements has changed through years in dependence of the extent and type of transshipments or modifications of legislation.
A limit permitted value of emissions with regard to the flow of the total quantity of dust is 50 mg/m^3 or 150 mg/m^3. All values measured on eleven measuring points in 2010 were under values permitted by law.

Reduction of emissions of CO_2

In the framework of the European project CLIMEPORT (Mediterranean Port's Contribution to Climate Change Mitigation) with the Mediterranean and energy agencies we search for solutions for more efficient utilisation of energy and consequently, for the reduction of greenhouse gases emissions. In 2009 we calculated our "carbon" print, which comprises the emissions of CO_2, CH_4 and N_2O and Freon.

In 2010 Luka Koper released into the atmosphere, either through direct or indirect emissions, 49,013 tonnes of CO_2-eq or 3.53 tonnes of CO_2-eq per transshipped tonne of goods, which is by 6% less than in 2009. The calculation also includes the emissions of ships during their harbouring, which represent 40% of all emissions of CO_2, CH_4 and N_2O. The activities will continue in 2011 in the framework of the project and the action plan of the Mediterranean ports for reducing greenhouse gases emissions will be prepared.

Waste

We also protect the environment by separately collecting and recycling various types of waste. For this purpose, we carry out a compulsory national public service of collecting solid and liquid ship waste in the area of the Port; operative activities of collecting, processing and removing all sorts of waste are carried out by our subsidiary Luka Koper INPO, d. o. o.

Separate waste collection at the port

Separate waste collection is based on waste separation already on terminals, with the economic zone users and on ships. Within Luka Koper, the Waste management centre, which has been in operation already since 1997, collects and if necessary also sorts waste. Separately collected waste fractions are then used as secondary raw materials for the needs of organic waste processing (wood, fruit, soy, etc.), and the Centre also comprises a composting plant, where such waste is processed in compost. In waste processing, we also cooperate with external companies. Among the larger companies we deal with is Komunala Koper, d. o. o., from which we accept biological waste, suitable for compost.
In 2010, we can boast with an 80% share of separately collected waste, which exceeds the set goal.

The share of separately collected waste in 2010 is 80%.

Noise

Noise is a part of the Port's daily activities, but since we are socially responsible, we constantly measure the noise intensity and manage its possible dimensions. Despite the statutory determined frequency of measurements to once every three years, we carry them out on an annual basis. Within the project study "Noise emissions of the Port" we measure the noise level 24/7 on three limit points of the port – in the direction towards Ankaran, Bertoki and Koper, in order to recognise louder sources of noise in advance and take appropriate measures. We are the first industrial plant in Slovenia to have commenced the constant measurement of noise, and we present the measurements on the sustainable development portal www.zivetispristaniscem.si. Furthermore, we have made noise cards for the systematic monitoring of improvements in this area. The area of the Port is categorised to level IV of the noise protection and the measurements of the noise levels meet the requirements for this area. Compared to 2009, we have noticed a higher level of noise in the direction towards the city centre of Koper on account of the increased scope of work carried out on basin I.
In 2010, we separately evaluated the source of noise caused by individual ships (passenger and cargo), and we estimate that the

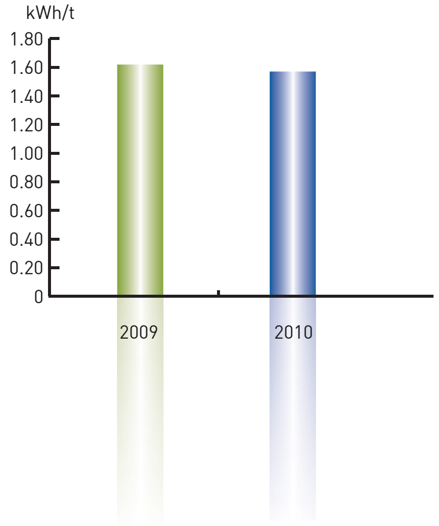
We are the first industrial plant in Slovenia, which has started continuously measuring noise.

increased extent of passenger ships will typically increase noise towards the city centre of Koper. The source of noise from ships is a result of the auxiliary ship generators, on which the Port does not have a direct influence.
We did not reach the set goal of decreasing the night level of noise towards the city centre of Koper. We started measuring individual sources (port mechanisms, cooling systems, etc.), based on which we will prepare an action plan for rehabilitation in 2011.

Energy

We have introduced energy efficiency to all terminals, as the use of energy represents an important environmental aspect to the Port. The main energy products, which we use, are electrical energy, motor fuel for the vehicle fleet, fuel oil and liquefied petroleum gas for heating.
In cooperation with the Energy Efficiency Centre of the Jožef Stefan Institute, we started a demanding project of the Port's energy review, which will serve to identify the measures for enabling an at least a 10% decrease in the energy product use.

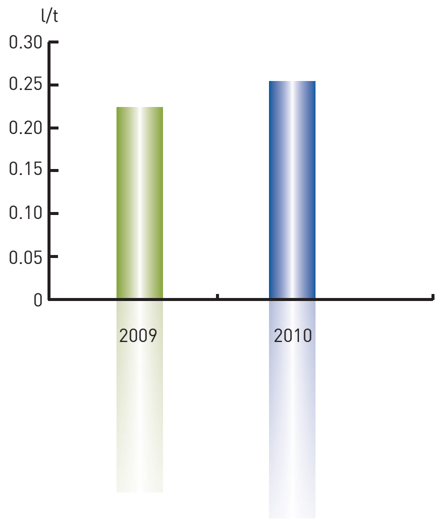
Electricity consumption per tonne of the total throughput



Electricity consumption per throughput tonne

Port activity is carried out using mechanisation with high nominal power and, consequently, high electricity consumption. High energy consumers are, in particular, the coastal cranes and the engine rooms for cooling nutrients in the fruit terminal, where we have increased the number of cooled warehouses during the last two years.
Electricity consumption per throughput tonne decreased in comparison to 2009.

Motor fuel consumption per tonne of the total throughput



Motor fuel consumption per throughput tonne

Due to long distance goods throughput inside ports, fossil fuel consumption has been gradually increasing in recent years. The majority of the port mechanisation works on fossil fuel, with the exception of all the port cranes on piers and some of the forklifts, which are powered by electricity. Therefore, fossil fuel consumption can only be decreased by replacing the mechanisation, whereby the new mechanisation would use alternative or hybrid drives. When the energy verification project of the Port is completed, we therefore plan a preparation of specific efficient measures for lower fossil fuel consumption. We did not manage to reach the target values for 2010.

Water

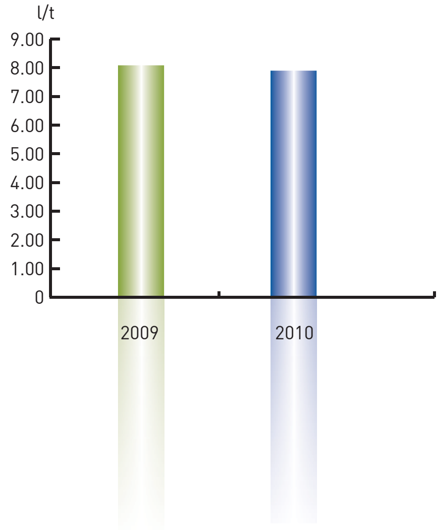
A variety of safety and cleaning measures are taken in connection with water, which is considered the most important requirement for life. Since water is used for sanitary purposes, the supply of ships and specific technological processes, the concern for water cleanliness is a part of everyday activities.

Drinking water

The Port's water system for drinking water consists of approximately 30 km of pipeline. Drinking water is used for sanitary purposes, to supply ships and certain technological processes, (e.g. timber soaking, food cooling, cleaning port mechanisation). Internal water systems for providing fire protection in the area of the Port are linked to fire pumping points, which take water directly from the sea. Water taken from borings and the precipitation water taken from reinforced surfaces is used for reducing the rising of dust. The consumption of water is controlled by a control system with counters connected with the surveillance centre. Since 2004 we have established the system of detecting water losses through which we can discover numerous defects in the water system and consequently, water losses.

A higher consumption of water has been observed in the last years, which can be attributed to the deteriorated water system and frequent leakages in the southern older part of the Port.
In 2010 the consumption of water per transshipped tonne decreased in comparison with 2009; nevertheless the target of 5.8 l/t has not been achieved.

Consumption of water per transshipped tonne



In 2010 we elaborated the project documentation for the reconstruction of the Port's sanitary system, which will be completed by 2012.

Wastewater

The port produces especially sanitary wastewater, which is partly cleaned in a central cleaning plant in Koper and partly in small port's communal cleaning devices. Our long-term objective in this area is to reduce burdening of the environment with sanitary waters by connecting water in the vicinity of public sewage system to the public system. Where this is not possible due to too long distance from the public communal infrastructure, we will substitute sumps with modern small communal cleaning devices. Due to the complexity of the project, the objective to connect 50% of sumps to the public sewage system or to replace sumps with modern small communal cleaning devices was not realised in 2010. Nevertheless, in 2010 we elaborated the project documentation for the reconstruction of the Port's sanitary system, which will be completed by 2012.

Due to precipitation, drainage waters also appear on 142 hectares of reinforced areas of the Port. Numerous oil traps are installed in this area, which prevent the pollution in the case of possible spillages. Technological wastewaters are also adequately cleaned prior to discharge in the Port's own cleaning devices. The results of water quality measurements in 2010 confirm that the stipulated requirements have been met.

Effects of lighting

Good lighting, which is required for continuous performance of a working process, is provided. Unfortunately, the lighting, which illuminates warehousing areas, sites, transportation routes and rails at night is the source of environmental pollution. On the basis of a research about comprehensive coordination of the Port's existing outside lighting, such coordination has been carried out by phases. The deadline specified by law for such coordination has been postponed to 2016. Nevertheless, at this moment we estimate that 75% of the outside lighting has been coordinated so far. Our plan in 2010 also involved an additional 10% coordination, however due to the postponed deadline, we have additionally coordinated only 5% of lights. Through the implementation of these measures, we will also reduce electricity consumption.

In the past year, we noted 37 incidents and our marine protection services carried out 18 interventions in the Port's aquatorium.

Marine protection

In accordance with the Concession Agreement for the Administration, Management, Development and Regular Maintenance of Port Infrastructure at Koper Port Terminal, we conducted services related to the prevention and elimination of marine pollution in 2010. Luka Koper's Ecological fleet is modernly equipped for interventions in the event of sea pollution and has three special vessels equipped for the purpose of sea surface purification., In 2010, 37 incidents were noted and our marine protection services carried out 18 interventions in the Port's aquatorium. In 14 cases, pollution was caused by oil spills whereas in all other instances pollution was caused by coal dust, non-purified sewage from the Central purification plant of Koper as well as a variety of deposits and drift wood washed down by the Rižana River into the Port basin. The main measure for the success and efficiency of rehabilitation is the speed of intervention. No pollution in the Port's aquatorium has yet spread outside its boundaries, as all cases of pollution were detected, confined and purified inside the Port in a timely manner.

In cooperation with the Faculty of Maritime Studies and Transport, we prepared an assessment of threat and a plan of protection and rescuing Luka Koper, d. d., in case of industrial accident, which besides the land part now comprises also the Port aquatorium. In 2010, we also carried out drills and trainings with an emphasis on timely noticing of incidents and correct method if informing and taking actions. In December, we successfully carried out the drill Sea and land 2010, with which we verified the functioning of the new Protection and rescuing in case of industrial accident plan.

Statistical data on interventions at sea

	2009	2010
Number of incidents at sea	32	37
Number of interventions in the Port's aquatorium	18	18
Number of incidents not requiring intervention	14	19
Number of pollution incidents outside the Port's aquatorium	0	0

Construction works

Over the past five years, we have carried out extensive construction works at the Port, such as the construction of new tankers, the extension of piers I and II, the garage house and a new entrance. The aforementioned works can cause an increase in dust or noise emissions, which is why we have concluded contracts with subcontractors which obligate them to follow all the determined environmental requirements. Despite this, disturbing factors cannot be avoided in certain construction activities.

Interventions in environment

All interventions in the environment planned by the Port, are subject to audit on the effects on the environment, which is carried out by authorised organisations and verified by certified auditors. If the result of the audit is that there is a need for additional measures to be taken to decrease emissions in the environment, the measures are carried out, as they are a condition for the operating permit. In recent years, the rapid increase in traffic, particularly in the area of the throughput of cars, required additional warehouse surfaces, and in 2009 and the beginning of 2010, pier I was partially extended and the project for building additional capacities for the storage of fuels and alcohol was completed.

HUMAN RESOURCE MANAGEMENT

Decreased number of employees in the Luka Koper Group and Luka Koper, d. d. is a consequence of employment limitation, increased number of retirements, improvement of internal organisation, and optimisation of the number of employees by organisational units.

In order to carry out efficient business processes and reaching the Luka Koper Group's goals, strategic orientations of human resource provision and management were adopted in 2010. Based on the analysis of the existing state, conditions and measures were indicated for the most optimal human resource policy and strategy in the field of all port service providers, particularly as regards the establishment of suitable proportion between the regular employees and other port service providers for individual types of work.

In 2010, the activities carried out in the area of human resource management reached, and in certain areas even exceeded the planned goals. Employment rationalisation, numerous age-related retirements, and especially the internal optimisation of business processes contributed to a decrease in the number of employees, while the turnover rate remained below 5%. A lower financial input in education enabled more hours of education per employee in 2010; above 70% of all hours were realised internally, and a big majority of all employees was included in educational events (79% in the Group and 84% in Luka Koper, d. d.). Within the education events, over 30% of employees underwent one type of carrier development in the Company.

Employment policy

As at 31 December 2010, the Luka Koper Group employed 997 employees, which is by 3% less than the year before. Despite the increasing turnover, employment was limited to individual job positions, necessary for the current operations and compliant with the set strategic goals, throughout most of the year. Majority part of new employment in the basic working process was carried out in the last quarter of the year, while we drew from the internal human resources from units with a smaller extent in order to satisfy the HR needs. Reallocations were made along with additional training of employees in the form of instruction. Through the internal mobility of human resource, we successfully substituted the retired employees.

The number of employees in the companies of the Luka Koper Group as at 31 December 2010

	2009	2010	Index 2010/2009
Luka Koper, d. d.	768	748	97
Luka Koper INPO, d. o. o.	220	213	97
Luka Koper Pristan, d. o. o.	8	6	75
Adria Terminali, d. o. o.	35	30	86
The Luka Koper Group	1.031*	997	97

*A comparison with 2009 includes only the companies included in the Luka Koper Group in 2010.

Compared to 2009, the number of departures from Luka Koper, d. d. did not change. The most frequent reason for departures is retirement. This is a matter of objective turnover, to which the Company has no influence; the number of other types of employment contract termination was negligible.

Comparison between recruitments, departures and employee turnover

	New recruitments		Departures		EMPLOYEE TURNOVER RATE*	
	2009	2010	2009	2010	2009	2010
Luka Koper, d. d.	14	13	32	33	4	4.2
The Luka Koper Group	26	17	69	51	6.3	4.9

*Calculation methodology for employee turnover rate = number of departures (initial number of staff + new recruits) x 100

Organisational changes and efficient management of working time

Last year, the employment limitation, growth of container transportation above expectations, and unpredictable fluctuations of transshipment during the year resulted in increased extent of overtime hours in rearranged working time. Consequently, 2010 activities were mostly focused on small organisational changes with the purpose to optimise the core and support processes. We still have not achieved optimisation in this area, and will therefore continue with the organisational changes and human resources also in 2011. Last year, our employees were enables the highest annual leave use so far, reaching 93% on the group level, and 96% in Luka Koper, d. d. The transition to the 2011 business year will therefore have fewer unused leaves from 2010, thus enabling better work organisation and higher human resource availability in the first half of.

Last year, our employees were enables the highest annual leave use so far.

Occupational safety

Our main objective is to protect employees from the negative effects of the working environment and technological processes; to this end, we maintain our health and safety at work system in accordance with the guidelines of the OHSAS 18001:2007 international standard. The elements of protecting employees from negative influences of working environment are included in all the activities of Luka Koper. All cases of injuries are carefully investigated so as to determine the causes, make a report and take the necessary measures to prevent future injuries. Nevertheless, we experienced an increase in absenteeism due to diseases and injuries in 2010. We have established that such absenteeism is primarily a result of employees suffering from serious health conditions which are not directly linked to their work, yet they are more than three months absent from work.

Employee absenteeism

	2009	2010
Luka Koper, d. d.	4.5	4.7
Luka Koper Group	4.9	5.3

*Employee absenteeism – only absence as result of health conditions, which includes lost working time as result of absenteeism due to illness (diseases, injuries) is considered.

Education and training of employees

In accordance with the goals set for 2010, the education of employees was focused on targeted education. Besides obtaining and using new knowledge, the emphasis was put on in-house training, particularly short workshops. Such an approach ensures the increased competence and flexibility of personnel as well as reduced financial costs. Among the types of operational human resource education available, the system of instructions is increasingly being used, enabling employees to obtain specific knowledge and learn operational work skills.

Most employees were included in education, with the share of in-house education exceeding 70% of all the hours of education completed. In 2010, this reached an average of 18 hours of educa-

Structure of employees as at 31 December 2010

	Luka Koper, d. d.		Luka Koper Group	
Level of education	Number of employees	Share (%)	Number of employees	Share (%)
VIII/2	2	0.3	2	0.2
VIII/1	16	2.1	17	1.7
VII	94	12.6	103	10.3
VI/2	113	15.1	118	11.8
VI/1	50	6.7	59	5.9
V	221	29.6	254	25.5
IV	181	24	254	25.5
III	16	2.3	23	2.3
I–II	55	7.3	167	16.7
Total	**748**	**100**	**997**	**100**

tion per employee in Luka Koper, d. d. and an average of 15 hours in the Luka Koper Group, thereby exceeding the annual target.

In 2010, we adopted a rational approach to the open college studies costs coverage. We conclude contracts on education with perspective human resources in order to enhance the knowledge and development of employees for predetermined positions or levels. The effects of the rationalisation approach manifest themselves in increased levels of employee motivation in the timely and successful completion of their studies.

Besides obtaining and using new knowledge, emphasis was put on in-house training, particularly short workshops.

Ensuring personal and professional growth of employees

The in-house mobility of our staff is very important for us, as employee satisfaction creates a good working atmosphere and produces results. We use the tools determined with corporate collective agreement, to enable the personal and professional growth of employees, thereby nurturing their career development. The latter is seen particularly through the systems of vertical promotion to a more demanding working position, horizontal movements at the same level of work, and ranking to a higher level of competence and flexibility of working position.

Career

	Vertical and horizontal promotion		Ranking to a higher level of competence and flexibility	
	2009	2010	2009	2010
Luka Koper, d. d.	74	57	255	167
Share (% of employees)	10	8	33	22
The Luka Koper Group	115	62	362	268
Share (% of employees)	11	6	35	27

Ensuring job and social security to employees

The employees of Luka Koper, d. d. and the Luka Koper Group were ensured a high level of job security, since 98.7% of Luka Koper Group employees, and 98.9% in Luka Koper, d. d. held a permanent employment contract at the end of 2010. The average salary at Luka Koper, d. d. and the Luka Koper Group exceeds the Slovenian average. The average monthly gross salary of employees in the Group amounted to €2,232.40 in 2010, exceeding the Slovenian average by 49%. The average monthly gross salary of employees in Luka Koper, d. d. amounted to €2,500.60 in 2010, exceeding the Slovenian average by 67%.
We regularly monitor the social state of employees, which is why in 2010 we gave financial help to the employees who found themselves in difficult social conditions due to long periods of absentee-

The average age of employees increased from 42.8 to 43.4 years, and the average length of service of employees again increased compared to 2009 – from 20.8 to 21.4 years.

ism as a result of illness. In 2010, we made regular salary payments in accordance with the corporate collective agreement.

We deal with the issue of disability by employing a suitable share of disabled workers in the Company or by reallocating a disabled worker to a suitable job position in the Luka Koper Group. With the supplementary quota in the social enterprise Luka Koper INPO, d. o. o., Luka Koper, d. d. fulfils a statutory determined requirement for employing disabled persons, whereby 62% of all employees are disabled persons. With European funds, a project of occupational health promotion was carried out, entitled "Protecting and strengthening the health of employees through ergonomic measures and measures to promote a healthy lifestyle".

Due to the nature of work, difficult and specific conditions in the core transshipment activity, the employee structure comprises far more men than women. Despite a decrease in the number of employees, the share of women employed remains the same, pointing to the fact that women are strengthening their position in areas of work which were traditionally considered to be the domain of men.

Disability issue – number and share of employees with disability status

	2009	2010
Luka Koper, d. d.		
Number of employees	14	13
Share (%)	1.8	1.7
Luka Koper Group		
Number of employees	163	150
Share (%)	15.8	15.0

Structure of employees by gender

	2009	2010
Luka Koper, d. d.		
Number of women	110	107
Share of women in the employee structure (%)	14.3	14.3
Luka Koper Group		
Number of women	128	122
Share of women in the employee structure (%)	12.4	12.2

Average employee age and length of service

	Average age of employees		Average length of service of employees	
	2009	2010	2009	2010
Luka Koper, d. d.	41.1	41.7	18.8	19.3
Luka Koper Group	42.8	43.4	20.8	21.4

Cooperation with educational institutions

In 2010, we maintain active cooperation with local educational institutions such as the University of Primorska, the Faculty for Maritime and Transport, technical colleges and the Open College as well as similar institutions in the wider area (IEDC Business school Bled, the Jožef Stefan International Postgraduate School (IPS), and others. We provide mentors to give support to students with writing their seminar papers, project papers, and diplomas, as well as provide students with compulsory on-the-job training and expert excursions. Our employees are also associate lecturers, Members of the Management Boards of educational and research institutions, and cooperate on joint projects.
In 2010, we approved three student scholarships, commenced investment in a scholarship fund for talented students at the University of Primorska, as well as enabled a preparation of a new study programme entitled Sustainable Development Management.

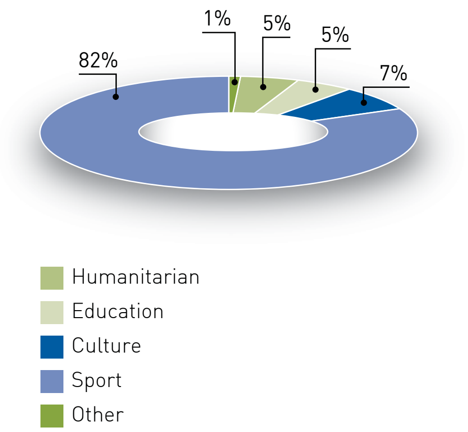
In 2010, we approved three student scholarships, and commenced investment in a scholarship fund for talented students at the University of Primorska.

Monitoring human resource management efficiency

Monitoring human resource management is essential for the long-term success of every company, especially those large in size. We measure the success of human resource management by undertaking activities every second year. In 2010, we carried out a mutual assessment of cooperation among the units of the Luka Koper Group. The best unit will receive a reward in 2011.

SOCIAL ENVIRONMENT

Distribution of funds for sponsorships and donations by area



With the "Living with the Port" fund, we achieved greater transparency in distributing available assets, and easier project recognition.

In 2010, we financially supported 101 projects in the area of sponsorship and donations.

We are aware of the impact we have on the environment in which we operate and live and, therefore, take a responsible role in its development. Being a part of the social environment means supporting the values expressed by respect and care to others. We help individuals and organisations through our knowledge and infrastructure, and support donation and sponsorship projects.

Sponsorships and donations

We carry out sponsorship and donation projects at local and national levels. In 2010, we spent €1.1m on donations and sponsorship, which is by 21% less than in 2009. A majority part of sponsorships and donations includes sports projects, and in almost equal proportions we significantly contribute to projects in the field of culture, humanitarian work, teaching and education.

Major news in terms of sponsorships and donations is the new system of allocating available assets introduced in 2010. We formed assets in a sponsorship and donation fund, and named it "Living with the Port". In February and July, we called the public to apply their projects for sponsorship or donation support. We received 392 applications for various projects, mostly in organisation of local interest groups. The internal professional committee evaluated the suggestions received according to the determined criteria, whereby the long-term contribution to company was deemed particularly important. In 2010, we therefore financially supported 101 projects. This method of gathering suggestions to support projects in the local community proved very successful. We were able to optimise the gathering, recording and evaluation of numerous applications; the monitoring of the implementation of individual projects also improved. With the "Living with the Port" fund, we achieved greater transparency in distributing available assets, and easier project recognition.
With sponsorships and donations, we will actively follow the development in the sport, cultural and wider social area also in 2011.

Education

With sponsorships and donations, we encouraged gaining new knowledge and expanding applicable good practices. For this purpose, we financially and professionally supported various youth events, performances and festivals, contributed assets for educational events and expert conferences, primarily in the field of environmental protection, logistics, transport and economy, and provided funds to help prepare and print important literature (Traditional Istrian vessels).

Health

We take care of the health of our employees as well as children in the broader social environment. In this area, we donated funds to the "Mladinsko zdravilišče" children's health resort and to the Red Cross of Slovenia resort in Debeli rtič, for the acquisition of technical equipment for the Division of Paediatrics of the general hospital in Izola, and for co-financing the First Aid Saves Lives programme on the right actions to be taken in road accidents.
Employees at the Luka Koper Group proved adept in providing help and saving lives in 2010. Informing on blood transfusion actions is already established between the transfusion station, the Red Cross and Luka Koper, d. d., with approximately 200 employees responding to the calls every year.

Charity

We also intend a part of the available assets to organisations, which ease the lives of those in need. Therefore, we contributed assets to numerous charity organisations, societies and institutions, which carry out the noble mission of the charity work. On the other hand, we sponsor the Luka Koper Retired Workers' Club and thus maintain connections with the retired port workers, encouraging them in the third life period activities. We have also provided for the equipment of the Voluntary Fire Association of Luka Koper, as fire safety at the Port is still the top priority. For this reason, we gave donations also to other fire associations in our vicinity in 2010.

Culture

A harbour town definitely needs a touch of cultural events and expression, therefore we also allocate a significant level of funding for cultural projects on an annual basis. We have enabled a presentation of paintings of four equestrian figures at the 300th anniversary of the Gravisi Barbabianca Palace, which is nowadays known as the Koper Music School. We are the main sponsors of the

Koper brass band, and have also helped with the publication of the "10 years of the Koper Theatre" pamphlet.
Through conserving cultural and natural heritage, we became a godfather to one of the Lipizzaner stallions born in 2010 on the 430th anniversary of the Lipica Stud Farm.

Sport

Last year, we allocated most of the funding available to sports amateurs and professionals.

Most of the project support interest is every year expressed in sports activities and sports events, which is why we allocated most of the funding available for sport amateurs and professionals. We have remained a traditional sponsor of the FC Luka Koper, Koper Volleyball Club, and the Olympic Committee of Slovenia. We have also become sponsors of the Junior Luka Koper Open tennis tournament for children aged 8 to 12. Furthermore, we have funded various handball, volleyball, football, fishing, sailing and rowing clubs, which work hard with young people to turn them into top-notch athletes.
Within the funds allocated for sports, the Luka Koper Sport Association is particularly active. Throughout the year, we have provided a wide range of organised sports activities to our employees, and we organised the Luka Koper Sports Games for the 30th successive year in 2010, where the Port's sports enthusiasts competed in 10 disciplines. There were also high levels of employee participation in numerous cycling and skiing excursions.

Interaction with the environment

1,500 visitors attended our open day, and we organised guided tours of the Port for a further 17,800 people over the course of the year.

Interaction with the environment is essential, as events that occur must be constantly monitored and a transparent two-way communication established. In accordance with management policy, we keep the public updated on important company events via the www.luka-kp.si corporate portal, the www.zivetispristaniscem.si portal on sustainable development, and the Ljubljana Stock Exchange portal, providing media notifications and comprehensive answers to media enquiries. In 2010, we published a leaflet for the general public entitled "Living with the Port", as well as a company catalogue and other leaflets.

We prepared two issues of the Notice information bulletin, which contains up-to-date information. In January 2011, we celebrated 40 years of the internal newspaper, Luški glasnik, by organising an exhibition of its original issues and caricatures held in the Srečko Vilhar Public Library in Koper. In the 40 years that have passed since its inception, the newspaper has recorded hundreds of people and thousands of the events which have made the town and port the harbour town we see today. Therefore, the exhibition drew a great deal of attention from port connoisseurs and locals.

The door to our port is always open. Groups of pupils and students, as well as associations and other organised groups visit our port almost every day. In September, we prepared an open day for the general public, and hosted around 1,500 visitors. During the year, we organised guided tours of the Port for a further 17,800 people. We also hosted many domestic and foreign ministers, European delegates, ambassadors, economists and other distinguished guests.

SUPPLIERS AND CUSTOMERS

The performance and respect of Luka Koper are connected also with the work of our suppliers. We regularly communicate and cooperate with them, and consequently develop good partnerships. Not only do our suppliers provide products or services, they also improve the Port's technological processes and assist in the search for new and innovative solutions.

The investment, technical and purchasing service ensures a high level of completing orders with suppliers at competitive conditions, timely purchases at the lowest possible price, and with the lowest amount of funds committed. Procurement management and its constant optimisation are becoming an increasingly important factor. Suppliers are required to make deliveries on time, as delays or early deliveries incur additional costs. One of the tasks of the procurement service is also to reduce the number of suppliers for individual materials.

On the basis of on internal assessment carried out using objective criteria, we choose and reward the best suppliers in four categories each year: port services, technical services, investment and technical products. During the assessment, the supplier's environmental awareness is a very important factor. We monitor their operation year-round and establish possible special features (advantages and weaknesses), encouraging them to further improve. Planned gathering of information and control over the existing suppliers ensure quality suppliers in the long-term.

To ensure the continued strong performance of the Company, the relationship with customers is also very important. For this reason, the customer is always the focus of attention in the Luka Koper Group. Partnership network expansion is a prerequisite for company growth. We have gained most new customers by increasing our range of services. The key to success in this area is undoubtedly supply chain optimisation, which lowers the customer's costs and creates mutual benefits.
In recent years, we have simplified customer operations through various information solutions. In order to maintain good business relationships and customer loyalty, we maintain on-going dialogue, regular visits and customer satisfaction monitoring. The latter is regularly followed up with meetings and questionnaires.

The key to success in customer relationships is supply chain optimisation, which lowers the customer's costs and creates mutual benefits.

BUSINESS EXCELLENCE AND QUALITY MANAGEMENT SYSTEMS

Quality means satisfying and anticipating the needs and expectations of buyers, employees, the owners and the environment. Our goal is to meet our customers' requirements and adjust our internal processes accordingly to help make their wishes come true. In order to achieve this, we follow international quality standards and business excellence principles, which were prepared almost ten years ago. We have amalgamated these principles into a unified management system, in which we linked the following requirements:

- Quality system management, in accordance with ISO 9001:2008,
- Environmental management system, in accordance with ISO 14001:2004,
- Assuring the safety of foodstuffs, in accordance with ISO 22000:2005,
- The health and safety at work management system, in accordance with BS OHSAS 18001:2007,
- NON GMO certificate for handling and warehousing non-genetically modified soy,
- EMAS certificate,
- SEVESO II Directive on environmental protection, and
- Business excellence models.

Our goal is to establish customers' wishes and establish internal processes so as to make their wishes come true.

In comparison to previous years, we continued with the systematic fulfilment of the key aspects of the management system model, into which we regularly incorporate management standards and business excellence model requirements.

In 2010, the comprehensive regular verification of the system was performed by carrying out the following activities:

- Judgment on the compliance and maturity of the system by an external authorised body. As every year, regular external audit was carried out in 2010. The audit result and assessment was better than in the previous two years, as no disharmony was established in 2010, and the auditors furthermore pointed out that noticeable progress had been made in specific areas;
- Regular and systematic verification of processes based on planned internal audits;
- Regular annual management review which was upgraded with a new practice of half-yearly management system review;
- Process efficiency establishment – based on process indicators, which were verified and determined for all processes. A review of operation with process indicators is not intended only to satisfy the requirements of standard, but it is a part of the regular practice of operation and performance results monitoring;
- Dealing with the measures for improvements and non-compliance, where a continuing and efficient system approach to solving irregularities and deviations inside processes is established.

Encouraging employee innovation

Changes in the market occur very quickly, and the task of each company is to adapt to them in the shortest time possible. Companies which promote innovation in business processes create added value, and innovation is the fundamental value of all employees. In our company, teamwork is the basis for encouraging employees to come up with ideas and innovations. This way, we have reached the planned goal for the second successive year – five improvements per ten employees. Our innovators received an award from the Republic of Slovenia for best innovations. The "Self lifting loading ramp" innovation, which is a result of our in-house idea, development and realisation, was awarded a bronze medal by the Chamber of Commerce and Industry of Slovenia.

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Contacts

Through reporting on sustainable development in Luka Koper, d. d., and the Luka Koper Group, we provide data and information to all groups and individuals who work with us in our day-to-day operations. More up-to-date news and information is available at www.zivetispristaniscem.si and www.luka-kp.si.

Any further information required can be found on our website or by getting in touch with the relevant department.

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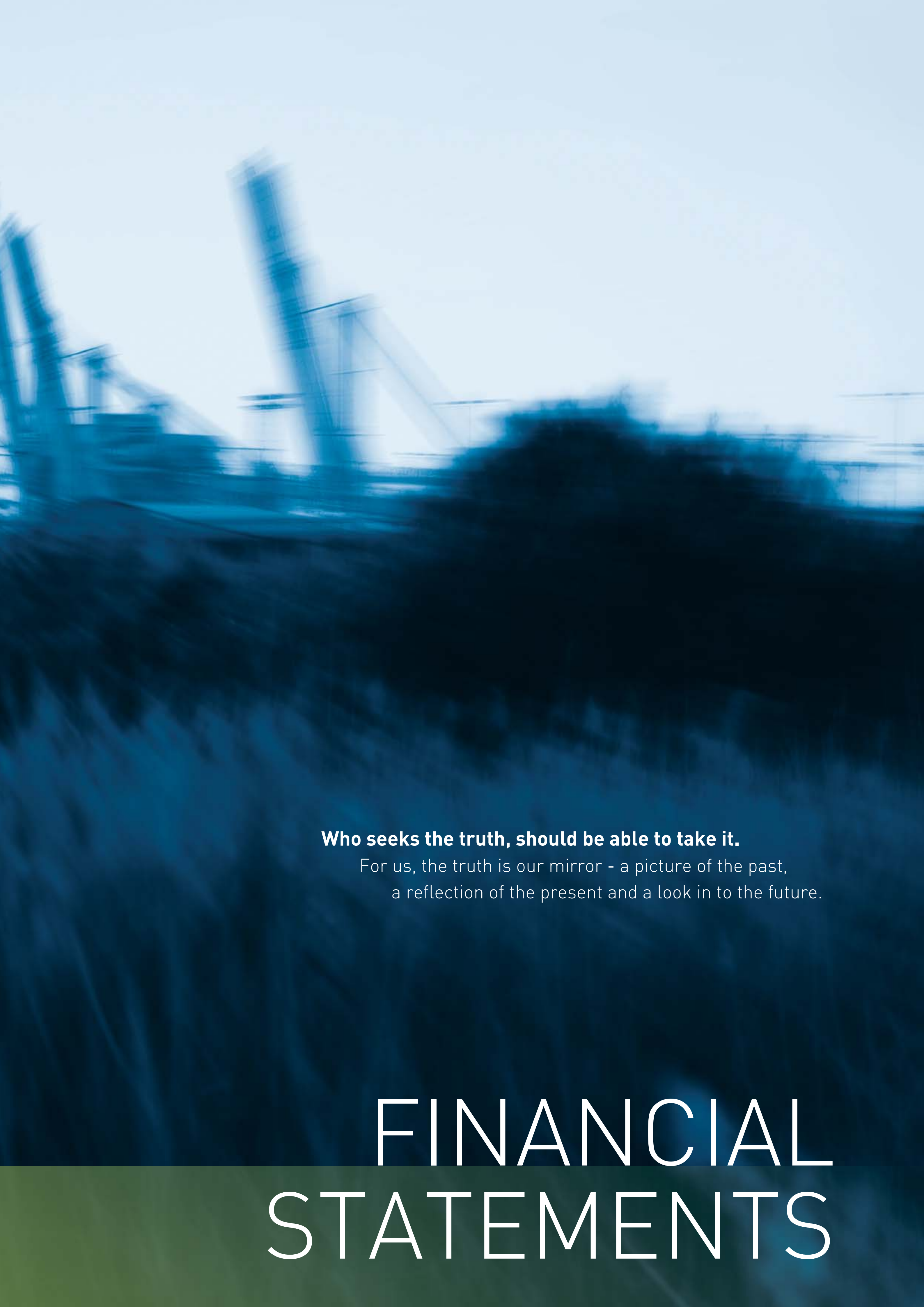

Who seeks the truth, should be able to take it.
For us, the truth is our mirror - a picture of the past,
a reflection of the present and a look in to the future.

FINANCIAL STATEMENTS

Table of contents

INTRODUCTION TO THE PREPARATION OF THE FINANCIAL STATEMENT

The consolidated financial statements and notes to the financial statements of the Luka Koper Group and non-consolidated financial statements and notes to the financial statements of Luka Koper, d.d., have been dealt with in two separate reports. The financial statements have been compiled in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

The auditing firm Ernst & Young d.o.o., Ljubljana have audited the consolidated and non-consolidated financial statements and the notes thereto and prepared an auditor's report, which has been included in the individual reports.

CONSOLIDATED FINANCIAL STATEMENTS OF THE LUKA KOPER GROUP FOR THE YEAR 2010

INCOME STATEMENT – audited and consolidated

	Notes	2010/€	2009/€
OPERATING REVENUE	**1**	**127,738,666**	**116,124,640**
Net sales	1	125,179,616	113,809,418
Other operating revenue	1	2,559,050	2,315,222
OPERATING COSTS		**(113,544,727)**	**(124,303,340)**
Costs of goods, materials and services	2	(43,160,757)	(40,721,974)
Labour costs	3	(36,100,966)	(37,012,329)
Write-downs	4	(28,267,008)	(35,499,113)
Other operating expenses and provisions	5,6	(6,015,996)	(11,069,924)
OPERATING PROFIT/(LOSS)		**14,193,939**	**(8,178,700)**
FINANCE INCOME	**7**	**2,309,705**	**4,414,543**
Of this, the share in the operating result of joint ventures	11	573,340	959,032
FINANCE EXPENSES	**8**	**(19,805,296)**	**(68,408,058)**
TOTAL PROFIT/(LOSS)	**9**	**(3,301,652)**	**(72,172,215)**
Income tax	10	(391,250)	(410,990)
Deferred tax	11	789,250	5,980,691
NET PROFIT/(LOSS)	**12**	**(2,903,652)**	**(66,602,514)**
Net loss of the majority shareholder	**12**	**(2,903,652)**	**(66,303,732)**
Net loss of the minority shareholder	**12**	**—**	**(298,782)**
Net loss per share (basic and diluted)	**25**	**(0.21)**	**(4.73)**

The accompanying notes are an integral part of the financial statements and should be read in conjunction with these.

STATEMENT OF COMPREHENSIVE INCOME – audited and consolidated

	Notes	1 – 12 2010/€	1 – 12 2009/€
Net profit/(loss) for the period	**12**	**(2,903,652)**	**(66,602,514)**
Other comprehensive income for the period:			
Change in fair value of available-for-sale financial assets	25	(662,135)	7,189,128
Deferred tax		132,427	(1,437,825)
Revaluation of available-for-sale financial assets in net amount		(529,708)	5,751,303
Changes in fair value of financial instruments for hedge accounting in net amount		—	—
Change in revaluation reserves from revaluation of property, plant and equipment in net amount		—	—
Total other comprehensive income for the period		**(529,708)**	**5,751,303**
Total comprehensive income for the period		**(3,433,360)**	**(60,851,211)**
Of that:			
Majority shareholders' equity		(3,433,360)	(60,552,430)
Minority shareholder's equity		—	(298,782)

The accompanying notes are an integral part of the financial statements and should be read in conjunction with these.

BALANCE SHEET – audited and consolidated

	Notes	31. 12. 2010/€	31. 12. 2009/€
ASSETS		**502,345,304**	**531,672,019**
NON-CURRENT ASSETS		**459,124,856**	**505,003,934**
Intangible assets	13	7,299,398	7,024,047
Property, plant and equipment	14	373,840,418	387,867,394
Investment property	15	17,512,207	18,438,868
Non-current investments	17	51,015,089	82,826,382
Non-current operating receivables	18	41,559	220,307
Deferred tax assets	19	9,416,185	8,626,936
CURRENT ASSETS		**42,736,311**	**25,964,736**
Assets (disposal groups) held for sale	20	18,224,413	1,382,987
Inventories	21	12,688	13,752
Current investments	22	837,691	3,228,597
Current operating receivables	23	22,980,690	20,482,935
Short-term income tax receivables	23	—	302,131
Cash and cash equivalents	24	680,829	554,334
DEFERRED COSTS AND ACCRUED REVENUE	25	**484,137**	**703,350**
EQUITY AND LIABILITIES		**502,345,304**	**531,672,019**
EQUITY	**26**	**244,056,503**	**247,410,496**
EQUITY – MAJORITY SHAREHOLDER		**244,056,503**	**247,043,315**
Share capital	26	58,420,965	58,420,965
Capital surplus	26	89,562,703	89,562,703
Legal reserves	26	18,882,890	18,876,842
Other revenue reserves	26	58,112,522	60,544,410
Revaluation surplus	26	10,514,887	11,044,595
Retained earnings	26	8,562,536	15,706,530
Net profit/(loss) for the year	12	—	(7,112,730)
CAPITAL – MINORITY SHAREHOLDER		**—**	**367,181**
PROVISIONS AND ACCRUED COSTS AND DEFERRED REVENUE	**27**	**12,636,801**	**13,884,933**
NON-CURRENT LIABILITIES		**161,192,848**	**47,972,817**
Non-current financial liabilities	28	158,376,144	45,032,490
Non-current operating liabilities	28	187,982	179,178
Deferred tax liabilities	28	2,628,722	2,761,149
CURRENT LIABILITIES		**83,673,527**	**220,912,555**
Current financial liabilities	29	67,893,506	189,506,102
Current operating liabilities	29	15,511,503	31,406,453
Short-term income tax liabilities	29	268,518	—
ACCRUED COSTS AND DEFERRED REVENUE	**30**	**785,625**	**1,491,218**

The accompanying notes are an integral part of the financial statements and should be read in conjunction with these.

STATEMENT OF CHANGES IN EQUITY – audited and consolidated

	Called-up capital €	Capital surplus €	Legal reserves €	Other revenue reserves €	Retained earnings €	Net profit for the year €	Revaluation surplus €	Total €	Minority sharehold-ers' equity €	Total equity €
As at 1 January 2009	**58,420,965**	**89,562,704**	**18,877,775**	**100,333,556**	**25,058,917**	**10,049,468**	**5,293,292**	**307,596,678**	3,462,356	311,059,034
Net profit/(loss) for the year						(66,303,732)		(66,303,732)	(298,782)	(66,602,514
Other comprehensive income for the year							5,751,302	5,751,302		5,751,302
Comprehensive income for the period						**(66,303,732)**	**5,751,302**	**(60,552,430)**	(298,782)	(60,851,212)
Formation of other revenue reserves based on a decision of the Management and Supervisory Board				(59,191,003)		59,191,003		—	—	—
Transfer to other revenue reserves based on a decision of the General Meeting				19,401,856	(19,401,856)			—	—	—
Transfer of the net profit for the prior year to retained earnings					10,049,468	(10,049,468)		—	—	—
Transfer from capital								—	(2,796,393)	(2,796,393)
Other			(934)					(934)		(934)
As at 31 December 2009	**58,420,965**	**89,562,704**	**18,876,841**	**60,544,409**	**15,706,529**	**(7,112,729)**	**11,044,594**	**247,043,314**	367,181	247,410,495
Net profit/(loss) for the year						(2,903,652)		(2,903,652)	—	(2,903,652)
Other comprehensive income for the year							(529,708)	(529,708)	—	(529,708)
Comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**(2,903,652)**	**(529,708)**	**(3,433,360)**	—	(3,433,360)
Formation of legal reserves and covering loss from other revenue reserves based on a decision by the Management Board			6,048	(2,431,888)		2,425,839		—	—	—
Covering net loss of the year from the retained profit					(477,812)	477.812		—	—	—
Transfer of the net profit for the prior year to retained earnings					(7,112,730)	7,112,730		—	—	—
Interest acquisition					446,549			446,549	(367,181)	79,368
As at 31 December 2010	**58,420,965**	**89,562,704**	**18,882,889**	**58,112,522**	**8,562,536**	**—**	**10,514,887**	**244,056,503**	—	244,056,503

The accompanying notes are an integral part of the financial statements and should be read in conjunction with these.

CASH FLOW STATEMENT – audited and consolidated

		31. 12. 2010/€	31. 12. 2009/€
A.	**Cash flows from operating activities**		
a)	**Net profit/(loss)**	**(3,692,902)**	**(72,583,205)**
	Profit/(loss) before tax	(3,301,652)	(72,172,215)
	Income tax and other taxes not included in operating expenses	(391,250)	(410,990)
b)	**Adjustments for**	**43,828,138**	**101,545,606**
	Depreciation and amortization (+)	26,268,798	25,075,239
	Revaluation operating revenue associated with investing and financing (–)	(78,763)	(52,184)
	Revaluation operating expenses associated with investing and financing (+)	56,867	13,379,056
	Finance income less finance income from operating receivables (–)	(2,119,460)	(4,159,585)
	Finance expense less finance expense from operating liabilities (+)	19,700,696	67,303,080
b)	**Changes in net operating assets in balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities)**	**(21,289,643)**	**7,059,007**
	Opening less closing operating receivables	(3,895,140)	5,220,173
	Opening less closing deferred costs and accrued revenue	219,213	2,014,750
	Opening less closing assets (of disposal groups) held for sale	(43,424)	(1,256,504)
	Opening less closing inventories	1,064	6,496
	Closing less opening operating liabilities	(15,617,629)	1,068,822
	Closing less opening accrued costs and deferred revenue, and provisions	(1,953,726)	5,270
c)	**Net cash from operating activities (a + b)**	**18,845,894**	**36,021,408**
B.	**Cash flows from investing activities**		
a)	**Receipts from investing activities**	**18,593,009**	**66,066,765**
	Interest and profit shares from investing activity	2,028,952	4,159,585
	Receipts from disposal of property, plant and equipment	2,431,193	34,399,921
	Receipts from disposal of investment property	1,079	—
	Receipts from disposal of non-current investments	10,878,305	4,564,224
	Receipts from disposal of current investments	3,253,480	22,943,035
b)	**Disbursements from investing activities**	**(20,859,080)**	**(135,739,633)**
	Disbursements to acquire intangible assets	(533,397)	(1,433,631)
	Disbursements to acquire property, plant and equipment	(19,310,249)	(106,146,485)
	Disbursements to acquire investment property	(314,167)	(5,009,410)
	Disbursements to acquire non-current investments	(419,145)	(6,383,802)
	Disbursements to acquire current investments	(282,122)	(16,766,305)
c)	**Net cash from investing activities (a + b)**	**(2,266,071)**	**(69,672,868)**
C.	**Cash flows from financing activities**		
a)	**Receipts from financing activities**	**140,503,795**	**304,937,816**
	Proceeds from paid-up capital	446,549	—
	Proceeds from increase in non-current financial liabilities	78,550,000	84,958,900
	Proceeds from increase in current financial liabilities	61,507,246	219,978,916
b)	**Disbursements from financing activities**	**(156,957,123)**	**(278,649,242)**
	Interest paid on financing activities	(8,630,935)	(8,248,765)
	Cash repayments of non-current financial liabilities	(40,437,007)	(2,328,217)
	Cash repayments of current financial liabilities	(107,888,779)	(268,020,774)
	Dividends and other profit shares paid	(402)	(51,486)

c)	Net cash from financing activities (a + b)	(16,453,328)	26,288,574
Č.	Closing balance of cash	680,829	554,334
	Net cash for the period (sum total of net cash Ac, Bc and Cc)	126,495	(7,362,886)
	Opening balance of cash	554,334	7,917,220

The accompanying notes are an integral part of the financial statements and should be read in conjunction with these.

COMPOSITION OF THE LUKA KOPER GROUP

The consolidated financial statements of the Luka Koper Group for the year ended 31 December 2010 include the financial statements of the parent company, Luka Koper, d. d., the financial statements of its subsidiaries, and the PNLs of associates and jointly-controlled companies.

Besides the parent company, the Luka Koper Group comprises four subsidiaries in addition to ten associates and jointly controlled companies as at 31 December 2010.

Key parent company information

Luka Koper, d.d., is the only Slovenian international cargo port, and is controlled by a public limited company located in Koper which bears the same name. Its geographical position provides the closest connection between the Mediterranean and Central and Eastern Europe. The port was established in 1957. Today the harbour has a direct connection to the European railway and motorway system and holds the status of EU border entry point. The whole port enjoys the status of a free-trade zone. Luka Koper, d.d., represents the intermodal trade connection between various means of transport and throughput systems.
The Company's share capital of €58,420,964.78 is represented by 14,000,000 ordinary shares. The company's headquarters are located in Koper, Vojkovo nabrežje 38

Subsidiaries comprising the Group in addition to the parent company, Luka Koper, d. d.

		31. 12. 2010		31. 12. 2009	
Subsidiaries	Country	Ownership %	Share capital €	Ownership %	Share capital €
Luka Koper Pristan, d. o. o.	Slovenija	100,00	1.894.746,00	100,00	1.894.746,00
Luka Koper INPO, d. o. o.	Slovenija	100,00	240.878,00	100,00	240.878,00
Adria Terminali, d. o. o.	Slovenija	100,00	2.000.000,00	51,00	2.000.000,00
Adria Investicije, d. o. o.	Slovenija	100,00	52.138,70	100,00	52.138,70
Eco-morje, d. o. o.	Slovenija	-	-	100,00	10.000,00
Luka Kopar Beograd, d. o. o.*	Srbija	-	-	90,00	48.698,05
Luka Koper Deutschland GmbH*	Nemčija	74,80	18.700,00	74,80	18.700,00
Ecopark, d. o. o.*	Slovenija	-	-	70,00	10.000,00

* The winding-up of Luka Kopar Beograd, Eco-morje, d.o.o., and Ecopark, d.o.o. was completed, and all three were liquidated in 2010. Luka Koper Deutschland GmbH is still in the process of liquidation. These companies are therefore not included in the consolidation.

Activities of subsidiaries

Luka Koper INPO, d.o.o. is a company specialising in construction, production and other services and activities provided by disabled persons. The company was incorporated in 1995, and gained the status of a company employing disabled staff in 1996. As at 31 December 2010, Luka Koper INPO, d.o.o. has 213 employees, of which 132 are disabled.

Luka Koper Pristan, d.o.o. is a wholly owned subsidiary of Luka Koper, d.d. According to the standard classification of activities, the company is registered for trading activities, hotel services and the like, student dormitories, mountain huts and holiday accommodation, restaurants and pubs. The company was established in July 1996 and has six employees as at 31 December 2010.

Adria Terminali, d.o.o. was registered at the court on 14 February 2007. The company's main activity is warehousing. On 31 December 2010, Luka Koper, d. d. held a 100% share in the company. As at December 2010, the company has 30 employees.

Adria Investicije, d.o.o. is a fully owned subsidiary of Luka Koper, d. d. The company was registered on 22 January 2008. Its main activity is organising the realisation of building projects. The company has no employees.

Changes concerning associates

Changes in the composition of the Luka Koper Group for the period January to December 2010:

- On 8 April 2010, the Koper District Court decided that Eco-morje, ekološke storitve, d.o.o., and Ecopark, energetsko-ekološki park, d.o.o. be deleted from the register of companies.
- On 12 March 2010, there was a change in the ownership interest of Adria Terminali, d.o.o.; Luka Koper, d. d., also purchased a 49% share in Adria Terminali, d.o.o., thereby becoming the 100% owner of the company.

Associates and jointly controlled companies of the Luka Koper Group

Luka Koper, d.d. also has its capital invested in associated companies and jointly controlled companies where it has a significant influence. In the financial statements of the Group, they are accounted for under the equity method and, as such, they either increase or decrease operating profit or loss by the attributed part of the PNL.

Associated and jointly controlled companies	**31. 12. 2010** Ownership %	**31. 12. 2009** Ownership %	2010 Change in ownership %
Associates			
Avtoservis, d.o.o.	49.00	49.00	—
Golf Istra, d.o.o.	20.00	20.00	—
Intereuropa, d. d.	—	24.81	(24.81)
TOC, d.o.o., Koper	47.81	47.81	—
Railport Arad s.r.l. (Romania)	33.3	33.3	—
Jointly controlled			
Adriafin, d.o.o.	50.00	50.00	—
Kopinvest Netherlands B. V. (Netherlands)	—	50.00	(50.00)
Adria Transport, d.o.o.	50.00	50.00	—
Adria- tow, d.o.o.	50.00	50.00	—
Ecoporto Koper, d.o.o.	98.00	—	98.00
Adriasole, d.o.o.	98.00	—	98.00

Changes in associated and jointly controlled companies

- In December 2010, the Management Board of Luka Koper, d. d., initiated a public invitation for offers to sell its 24.81% ownership interest in Intereuropa, d. d. As a result, we transferred long-term investments among non-current assets (for disposal group) for sale.
- Ecoporto Koper, d.o.o. and Adriasole, d.o.o. are not managed in accordance with the provisions of IAS 27; even though Luka Koper, d. d. owns a 98% interest in both companies, the memorandum of association determines that the consent of both partners is required for the adoption of important decisions. On this basis, we reallocated the companies among associates in accordance with the provisions of IAS 28.

NOTES TO THE FINANCIAL STATEMENTS OF THE LUKA KOPER GROUP IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

Luka Koper, d. d., located at Vojkovo nabrežje 38, 6001 Koper, the Republic of Slovenia, is the controlling entity of the Luka Koper Group. The complete consolidated financial statements of the Luka Koper Group for the reporting period 2010 include the following:

- Consolidated balance sheet,
- Consolidated income statement,
- Consolidated statement of comprehensive income,
- Consolidated cash flow statement,
- Consolidated statement of changes in equity, and
- Notes, which include a review of all important accounting policies and other explanatory notes.

For the purpose of consolidation, separate financial statements of the parent company and its subsidiaries were combined and consolidated. The processes comprise equity consolidation, the elimination of contra accounts, the elimination of mutual revenue and expenses, and unrealised gains and losses. The financial statements of the Group companies were prepared on the same reporting date, using the standard accounting policies. The financial statements were prepared on a going concern basis. The Group is considered as a going concern, and prepares its financial statements using the accrual method of accounting and the consistency principle.

Basis of the preparation of consolidated financial statements

Statement of compliance

The financial statements are compiled in accordance with the Companies Act and International Financial Reporting Standards (IFRS), promulgated by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU.

As at the balance sheet date, there is no difference in the policies applied by Luka Koper d.d. between International Financial Reporting Standards and the IFRS, adopted by the EU.
The Management Board of Luka Koper, d.d. approved these financial statements on 12 April 2011.

Functional and presentation currency

The functional currency of the consolidated financial statements is the euro (€).

Fair value

Available-for-sale financial assets are carried at fair value, whereas all other financial statement items are presented at cost or amortized cost.

Transactions in foreign currency

Transactions in foreign currencies are converted into the euro equivalent at the reference exchange rate of the Bank of Slovenia prevailing on the transaction date. Monetary assets and liabilities in a foreign currency are converted at the reference exchange rate of the ECB on the balance sheet date. All differences resulting from foreign currency conversion are documented in the income statement.

Estimates and judgements

In the preparation of financial statements under International Financial Reporting Standards, the management makes certain estimates, judgements and assumptions which impact on the accounting policies used and the carrying value of assets and liabilities, revenues and expenses. These estimates are required, as many items in financial statements cannot be accurately measured due to uncertainty. The actual results differ from these estimates and, for that reason, the estimates are constantly revised and adjusted accordingly.

Deferred tax

Based on our estimates that sufficient taxable profit will be available in future, deferred tax was provided on account of the following items:

- Provisions for jubilee benefits and termination benefits upon retirement,
- Provisions for claims and damages,
- Impairment of investments,
- Unused tax losses.

Deferred tax assets recognised on account of provisions for jubilee benefits, termination benefits, claims, and damages are reduced by the relevant amount of provisions utilised or increased by the amounts of newly formed provisions.

Deferred tax assets were recognised in the relevant amount of impairment loss on investments as impairment losses are not recognised as tax expenditure until the investment's derecognition.

Deferred tax assets on account of unused tax losses were made on the basis of the statutory applicable corporate income tax rate for the financial year of 2010 and subsequently. Pursuant to the criteria stated in IAS 12 (36) and our business plan for the forthcoming period, we are of the view that taxable profit will be available in the forthcoming year, against which unused tax losses may be offset.

Deferred tax liabilities were made for temporary differences arising from the revaluation of available-for-sale financial assets (at fair value through the PNL). They will be utilised on the derecognition of these financial assets.

On the day of reporting, the amount of deferred tax assets and liabilities is reassessed. If there is not sufficient amount of available taxable profits, the amount of deferred tax assets is reduced accordingly.

Provisions

The Management approves the substance and amount of provisions on the following basis:

- There is an actuarial calculation of provisions for jubilee benefits and termination benefits,
- There is an assessment of the amount of potential claims prepared by legal services or another external lawyer, taking existing lawsuits and claims into consideration.

The amount of provisions is the best estimate of future expenditures.

Profit or loss from operations

Profit or loss from operations is defined as the result before income tax and finance items. Finance items comprise interest revenue on cash balances in the bank, deposits, interest-bearing available-for-sale investments, interest expenses on borrowings, gains and losses on the sale of available-for-sale financial instruments, and foreign exchange gains and losses on all monetary assets and liabilities denominated in a foreign currency.

SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES

Individual categories are disclosed under the International Financial Reporting Standards. All significant items and issues have been disclosed. The accounting policies used as well as their nature and degree of significance are identified in the Company's internal rules. For all significant amounts reported in the financial statements, we have also disclosed comparable information for the prior period, and included numerical and descriptive information. Comparative information has been adjusted to be consistent with the presentation in the current financial year.
The accounting policies used are consistent with those applied in previous years, except for the adoption of new standards and interpretations, as set out below.
The following standards were used in the preparation of the financial statements of the Luka Koper Group:

IFRS 3R – *Business combinations* and **IAS 27R –** *Consolidated and Separate Financial Statements*
The revised standards were issued in January 2008 and came into effect for the financial years commencing on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations, which will have an impact on the amount of goodwill recognised, the reported results during the period in which an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity trans-

action. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or a loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied going forward and will affect future acquisitions and transactions with minority interests.

The adoption of these standards and interpretations did not have any significant effect on the financial position or performance of the Group.

IFRIC 12
We have assessed the application of IFRIC 12 – Service Concessions Agreements and concluded that, in terms of the concession agreement and its substance (as detailed below), the interpretation does not apply to the Company.

In September 2008, Luka Koper d.d. concluded a concession agreement with the Republic of Slovenia. The agreement covers a multitude of relationships between Luka Koper d.d. and the Republic of Slovenia: land rental, right of superficies, water rights and a concession for the performance of commercial public services. The Company pays an annual concession fee, which is equal to 3.5% of the annual operating income. For the performance of commercial public services for the maintenance of port infrastructure, the Company is entitled to the income from Port dues which is the Company's dedicated revenue source for routine maintenance as well as major maintenance and repair work performed on Port infrastructure. Port dues account for 4% of the Company's operating income and, in terms of substance, they are an integral part of the Company's operating income. The amount of port dues is set by Luka Koper, d.d. in agreement with the government. The remaining 96% of the operating revenue is generated through the provision of transhipment and warehousing services, for which prices are determined by the laws of the market. The development and overhaul of the Port infrastructure is carried out by the Company in its own name and on its own account. During the term of the agreement, the concessionaire has no say in capacity utilisation. In light of the concession agreement specifics provided above, we believe that the provisions of IFRIC 12 – Concession Agreements refer to the relationships described. In the Company's books of accounts, the entire port infrastructure is reported as comprising property, the plant and equipment, allocated to the relevant profit centre to ensure separate monitoring of the activity.

Amendments to IFRS 2 – *Group Cash Settled Share-Based Payment Transactions*
Amendments to IFRS 2 comprise three basic amendments: a revised definition of share-based transactions and agreements, the scope of IFRS2, and further clarification as to how to account for cash-settled share-based payment transactions in the Group. The amended interpretation replaces the existing IFRIC 8 and 11.

IAS 39 – *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

IFRIC 17 – *Distribution of Non-Cash Assets to Owners*
IFRIC 17 becomes effective for annual periods beginning on 1 July 2009. The interpretation provides guidance as to how to account for the non-cash distribution of assets to owners. The interpretation clarifies when an entity should recognise the liability, how it should be measured, and how to recognise and measure the related assets, as well as when such assets and liabilities should be derecognised in books of accounts.

IFRIC 18 – *Transfers of Assets from Customers*
Applicable to transfers from customers on or after 1 July 2009.
The interpretation provides guidance as to how to account for property, plant and equipment transferred from customers, or cash received for the acquisition or construction of specified assets. This guidance applies only to assets used by an entity to connect the customer to a network or to provide the customer with ongoing access to a supply of goods, services or, in some cases, to do both. The entity must identify the service or services rendered and allocate the received payment (the fair value of assets) to each identifiable service. Revenue should be recognised on the delivery or performance of each individual service by the entity.

Improvements to IFRSs
In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

IAS 1 – *Presentation of Financial Statements*
Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Company has amended its

accounting policy accordingly and examined whether the management's expectations over the period in which assets and liabilities are capitalised differ from the classification of the financial instrument This amendment did not result in any re-classification of financial instruments between "current" and "non-current" in the statement of financial position.

IAS 16 – *Property, Plant and Equipment*
The term "net selling price" is replaced with "fair value less selling costs". Items of property, plant and equipment which are held for rental and routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

IAS 23 – *Borrowing Costs*
The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method in accordance with IAS 39. The Group has amended its accounting policy accordingly.

IAS 38 – *Intangible Assets*
The new standard removes the straight-line amortization method, unless persuasive evidence to support such a method exists. The Company has reassessed the useful lives of intangible assets and found that the use of the straight-line method of amortization is appropriate.

The following amendments had no impact on the accounting policies of the Company, its financial position or operations:

IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

IFRS 7 – Financial Instruments: Disclosures

IAS 7 – Cash flow statement

IAS 8 – Accounting Policies, Change in Accounting Estimates and Errors

IAS 10 – Events after the Reporting period

IAS 18 – Revenue

IAS 19 – Employee Benefits

IAS 20 – Accounting for Government Grants and Disclosures of Government Assistance

IAS 27 – Consolidated and Separate Financial Statements

IAS 28 – Investments in Associates

IAS 29 – Financial Reporting in Hyperinflationary Economies

IAS 31 – Interests in Joint Ventures

IAS 32 – Finance Instruments: Presentation

IAS 34 – Interim Financial Reporting

IAS 36 – Asset Impairment

IAS 39 – Financial Instruments: Recognition and Measurement

IAS 40 – Investment Property

IAS 41 – Agriculture – Additional Biological Transformations

In April 2009, the Board issued its omnibus of amendments to international standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The amendments described below did not affect the accounting orientations, financial position or performance of the Company:

IFRS 2 – Share-Based Payments – Defining when to apply IFRS 2 and IFRS 3
IFRS 5 – Non-Current Assets Held for Sale – Disclosures
IFRS 8 – Operating Segments – Disclosure of Segment's Assets

IAS 1 – Presentation of Financial Statements – current/non-current liability for exchangeable instruments
IAS 7 – Statement of Cash Flows – Categorisation of expenditure for non-recognised assets
IAS 17 – Leases – Categorisation of land and buildings
IAS 18 – Revenue – Designation whether an entity acts as a principal or an agent
IAS 36 – Asset impairment – The largest units to which goodwill may be attributed
IAS 38 – Intangible Assets – Amendments to standard due to the adoption of the new IFRS 3 and changes in the determination of fair value
IAS 39 – Financial Instruments – Assessment of liquidation damages for prepayment of a credit as an embedded derivative, cash flow hedges
IFRIC 9 – Re-assessment of Embedded Derivatives – impact of IFRS 3 and IFRIC 9
IFRIC 16 - Hedges of a Net investment in a Foreign Operation – Amendment of restriction to an entity allowed to have a hedge

Property, plant and equipment

The items of property, plant and equipment are carried at cost. Under the cost model, an item of property, plant and equipment is carried at its cost, less accumulated depreciation and accumulated impairment losses. The manner and methods used in the valuation of assets due to impairment are described in the section headed "Asset impairment". The cost of an item of property, plant and equipment is equal to its monetary price on the day the asset is recognised.

In cases where the property, plant and equipment contains components with different useful life estimates, the property, plant and equipment is divided into its components. Each part is accounted for separately. Land is accounted for separately and is not depreciated.

Finance lease

At the start of a finance lease, it is recognised in the balance sheet as an asset and liability in the amounts equal to the lower of the fair value of the leased asset or the present value of the minimum lease payments, whereby both values are determined at the outset of the lease. In deriving the present value of the minimum lease payments, the discount rate is the related interest rate; however, if this cannot be determined, the incremental borrowing rate incurred by the lessee is used. All direct costs of a lessee are added to the amount recognised as the asset.

Subsequent expenditure

Any subsequent expenditure incurred in the replacement of an individual part of an item of property, plant and equipment increases its cost, whereas other subsequent expenditure increases the cost of the asset only if it is probable that the economic benefits of the asset will increase over its originally estimated value. All other expenditure is recognised as expense when incurred.

Interest capitalisation

Interest is capitalised in accordance with the provisions of International Accounting Standard IAS 23 – Costs of borrowing. According to this standard, the costs of rent that are not directly attributable to the acquisition, construction or production of an asset are included in the purchase value or cost of the asset. Such costs are capitalised as part of the value of the asset. Capitalisation of the costs of rent as part of the purchase value of the asset under construction begins when expenditures for the asset are incurred, borrowing costs are incurred, and the activities necessary to make the asset available for its use or disposal have commenced.

Government grants for acquisition of property, plant and equipment are recognised in the balance sheet as deferred income and are intended to cover depreciation costs of these assets. The amount of government grants is recognised as income in the income statement over the expected useful life of the asset in equal annual instalments.

Depreciation

Depreciation charge is recognised for an individual period in the PNL. An asset is subject to depreciation when it is made available for use. The items of property, plant and equipment depreciate under the straight-line depreciation method over the estimated useful life of specific assets. The depreciation method used is reassessed at the end of each financial year. As a rule, the residual value of an asset is considered only for significant items of property, plant and equipment as is their cost of disposal. Land and works of art do not depreciate.

When the cost of an item of property, plant and equipment is significant, it is divided into its constituent parts. If these parts have a different useful life, we treat each part individually.

The annual depreciation rates used are described below

	2010	2009
Buildings	1.3–6%	1.3–6%
Transport equipment	4.0–20%	5.0–20%
Computer hardware	20.0–33.3%	20.0–33.3%
Other equipment	10.0–33.3%	10.0–33.3%

Derecognition

The carrying amount of an individual item of property, plant and equipment is derecognised:

- Upon its disposal, or
- When no future economic benefits are expected from the asset's use or disposal.

Intangible assets

Initially, intangible assets are recognised at cost. Subsequent to initial recognition, they are recognised at their cost, which is then reduced by accumulated amortization and accumulated impairment losses.

Amortization

Amortization begins when an asset is ready for use – that is to say when the asset is at the location and in the condition necessary for it to operate as intended.
The net carrying amount of an item of intangible assets is reduced under the straight-line amortization method over the period of its useful life. The period and method of amortization of an intangible asset with a finite useful life are reassessed at least at the end of each financial year. When the expected useful life of an intangible asset differs from previous assessments, its amortization rate is adjusted accordingly.
The useful life of an item of intangible assets that arises from contractual or other legal rights does not exceed the period of these contractual rights or legal rights; however, it may be shorter, depending on the period during which the asset is expected to be used. The estimated useful life of other intangible assets is 10 years.

Investment property

Investment property is held for rental purposes or because its value is expected to appreciate. Investment property is measured under the cost model.
Depreciation is accounted for under the straight-line depreciation method over the estimated useful life of an individual asset. Land does not depreciate in value. Facilities under lease and those owned by the Company are divided into their constituent parts with various useful lives of between 16 and 76 years. Only those buildings and land that are leased to unrelated parties are included in this category.

Investments in related parties

Investments in associated and jointly-controlled entities are measured under the equity method. These are the enterprises in which the Group has a significant influence but does not control their financial or business policies.

Financial instruments

Financial instruments are classified into the following categories:

1. Financial instruments at fair value throug profit or loss;
2. Held-to-maturity investments;
3. Loans and receivables;
4. Available-for-sale financial assets.

Financial instruments at fair value through profit or loss

The first category comprises financial instruments recognised on the trading date, which are measured at fair value through profit or loss, and which are held for active trading. All shares in this category were disposed of in 2010; therefore there was no investment in this category as at 31 December 2010.

Held-to-maturity investments

The second category comprises investments which are, upon recognition, designated as held to maturity. They are recognised on the settlement date and measured at the amortized cost using the effective interest rate method. Thus far, none of the Company's investments have been classified into this category.

Loans and receivables

The third category comprises all loans and borrowings as well as receivables. They are recognised on the settlement date and measured at the amortized cost using the effective interest rate method.

- **Trade receivables**
  In our books of accounts, long-term and short-term receivables are carried separately, as are trade receivables and receivables due from the state and employees. Trade receivables include interest receivables. Long-term and short-term trade receivables are initially recognised at the amounts agreed in the contracts or recorded in the relevant accounting documents. On the last day of the financial year, trade receivables expressed in foreign currency are converted into the local currency at the ECB reference rate.
  The amounts of individual trade receivables are determined at the end of the accounting period, taking evidence regarding doubtful settlement into consideration. Bad debt allowance is recognised for receivables over 12 months past due and for doubtful or disputed receivables.
- **Loans**
  On initial recognition, loans are carried at their amortized cost using the effective interest rate method. In terms of their maturity, loans are classified on the settlement date into long-term or short-term assets. From a credit risk management perspective, the maturity of individual loans as well as the method of settlement and collateral is determined by taking the credit rating of a borrower, (e.g. bills of exchange, pledge of securities and other movable or immovable property, the potential for unilateral netting of mutual liabilities, and similar collateral) into consideration. In the event that the borrower fails to meet its contractual liabilities, the collateral is liquidated or, if legal proceedings have been instituted, the investment is impaired.
- **Borrowings**
  On initial recognition, borrowings are carried at their amortized cost using the effective interest rate method. The majority of borrowings represent bank loans with repayment of the principal made upon maturity of the loan contract. In terms of their maturity, borrowings are classified into long-term and short-term financial liabilities. On the last day of the year, all those financial liabilities in respect of which the relevant debt covenants were not met, primarily due to impairment, were transferred to short-term financial liabilities. Interest-bearing borrowings are insured with bills of exchange and certain loan covenants. On the last day of the year, all finance liabilities falling due the next year, were reclassified to short-term financial liabilities. Loans are secured with blank bills and certain loan covenants.

Available-for-sale financial assets

Available-for-sale financial assets comprise all of the investments in equity securities. On initial recognition, they are measured at fair value, increased by the cost of transactions relating to the acquisition of individual financial assets. Fair value is considered market value based on the market value of securities or the published daily value of a unit of a mutual fund's assets. Fair value changes are recognised directly in the statement of comprehensive income on a quarterly basis. The declining volume of securities is accounted for in books of accounts using the average prices method. When available-for-sale financial assets are derecognised, the accumulated gains or losses are transferred to the PNL. Any additions and disposals of available-for sale financial assets are recognised on the trading date.

All other investments, for which no operating market exists and the fair value of which cannot be measured reliably, are measured at cost.

Cash

Cash comprises cash on hand and demand deposits, deposits redeemable at notice or deposits with maturities of up to three months. The balance of cash in foreign currency is converted into the local currency at the ECB reference rate of the last day of the financial year.

Derivative financial instruments

Luka Koper Group does not hold or issue derivative financial instruments for trading purposes.

Equity

The Group discloses the components of majority and minority interests and their changes in the statement of changes in equity. In 2010, the Company had no minority interest. All subsidiaries are in its 100% ownership.

Dividends

Dividends are recognised in the financial statements of the Group once the decision of the General Meeting on the distribution of dividends has been adopted.

Earnings per share

Luka Koper Group shows only basic earnings per share. Basic earnings per share are calculated by dividing the net profit with the weighted average number of ordinary shares.

Financial liabilities

On initial recognition, loans are carried at their fair value less attributable transaction costs. The difference between historical cost and amortized cost is stated in the income statement over the loan repayment period, using the effective interest rate method.

Operating liabilities

Long-term operating liabilities include security instruments received for leased business premises. Trade liabilities and payables to the state and employees are shown separately. Operating liabilities also include interest liabilities and liabilities for participation in the profits. Operating liabilities denominated in foreign currencies are converted into the national currency at the reference rate of the ECB on the last day of the financial year.
Short-term liabilities are disclosed in connection with the following groups of people: Members of the Management Board, Members of the Supervisory Board and employees with individual contracts.

Provisions

Provisions for lawsuits

The Group made provisions for claims and damages related to alleged business offences. The amount of the provisions is determined based on the amount of compensation claims, or an estimate if the amount of the claim is not yet known. The amount of provisions set aside is verified on a regular basis.

Provisions for termination and jubilee benefits

In accordance with the statutory requirements and the collective agreement, the companies in the Group are obliged to pay jubilee benefits and termination benefits upon retirement. These payments are measured using the simplified method of accounting, which stipulates that an actuarial liability is to be assessed on the basis of the expected salary increase from the valuation date until the anticipated retirement of an employee. This means that benefits are accrued in proportion to the work performed. The assessed liability is recognised as the present value of expected future expenditure. Anticipated salary increases and employee turnover are also considered part of the measurement.

Actuarial calculations, which are the basis for determining the amount of provisions, are performed every two years. The actuarial gains or losses in the current year are recognised in the income statement. The assumptions made are indicated in Note 27.

Maintenance of port infrastructure

In accordance with the concession agreement concluded with the government of the Republic of Slovenia, Luka Koper, d. d., creates long-term accrued costs and deferred revenues for the ordinary maintenance of the port infrastructure in an amount equal to the surplus of income from port dues over the costs incurred.

Income tax

Income tax is provided for in accordance with the Corporate Income Tax Act and, as we have the status of an Economic Zone user, also in accordance with the Economic Zones Act. In 2010 the tax authorities did not provide us with their decision, meaning we could therefore not claim such relief. The basis for the income tax calculation is the gross amount of profit increased by the amount of non-deductible expenditure and reduced by the amount of statutory tax relief. This method is used in accounting for the corporate income tax liability. In 2010, income tax liability was calculated as being 20%.

Deferred tax

With a view to reporting the relevant PNL for the period, the Group also accounted for deferred tax. Deferred tax includes deferred tax assets and deferred tax liabilities. Deferred tax was provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The differences were identified as permanent or temporary, whereas the latter were further divided into taxable and deductible. Taxable deductible differences increase the taxable amounts and deferred tax liabilities, whereas deductible temporary differences reduce the taxable amounts and deferred tax assets.

Revenue

Revenue from services rendered
Operating revenue is recognised when it can be reasonably expected that it will result in receipts unless these receipts were already realised when revenue was generated, and the amount can be measured reliably.
Revenue from services rendered is recognised using the stage of completion method on the balance sheet date. Under this method, revenue is recognised in the accounting period in which the services are rendered. The amount of each significant category of revenue recognised in the accounting period is disclosed, as well as revenue generated in the domestic and foreign markets.

Rental income
Rental income from investment property is recognised on a straight-line basis over the term of the lease. Rental income is recognised as part of operating revenue.

Other revenue
Other revenue includes fixed assets acquired free of charge, grants for the acquisition of fixed assets and government subsidies, primarily in the form of retained contributions on the salaries of employees of our disability enterprise. Government grants are initially recognised as deferred revenue. When fully used, they are recognised as other revenue. This is dedicated funding and the majority of funds is used to cover the depreciation charge of fixed assets.

Finance income and expenses
Finance income comprises interest income from loans, income from dividends, income from the disposal of available-for-sale financial assets, and foreign exchange gains. Interest income is recognised when accrued using the effective interest rate method. Income from dividends is recognised in the PNL when a shareholder's right to payment is established.
Finance expenses comprise interest costs on borrowings, foreign exchange losses and impairment losses on financial assets recognised through the income statement. Borrowing costs are recognised in the income statement using the effective interest rate method.

Expenses – costs

Costs are recognised as expenses in the accounting period in which they are incurred. They are classified according to their nature. Costs are carried and disclosed by natural types using the Company's three-digit chart of accounts. Expenses are recognised when a decrease in economic benefits in the accounting period results in a decrease of assets or an increase in liabilities and this decrease can be reliably measured.

Asset impairment

Impairment of property, plant and equipment
If there is any indication that an asset may be impaired, the asset's recoverable amount is assessed. In the event that the asset's recoverable amount cannot be assessed, the Company determines the recoverable amount of the cash generating unit to which the asset belongs. Impairment loss is recognised in the income statement. Impairment losses should be reversed if the estimates used to determine the asset's recoverable amount have changed. Impairment loss is reversed to the extent that the increased carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in respect of the asset in question. The reversal of the impairment loss is recognised as revenue in the income statement.

Impairment of intangible assets
On the reporting date, intangible assets are tested for impairment. When the recoverable amount of an asset is less than its carrying amount, the asset's carrying amount is reduced to its recoverable amount. The decrease is disclosed as an impairment loss and recorded as a revaluation operating expense.

Impairment of financial assets
On each reporting date, financial assets are tested for impairment using the criteria set out in the accounting manual in order to determine whether there is any objective evidence of impairment. If such objective evidence exists, the Company calculates the amount of impairment loss.

In the event that the Group determines that investments carried at amortized cost should be impaired, the amount of the loss is measured as the difference between the investment's carrying amount and the present value of expected future cash flows, discounted at the original effective interest rate. The amount of impairment loss is recognised in the income statement. When the reasons for the impairment of an investment cease to exist, the reversal of the impairment of the investment carried at amortized cost is recognised in the income statement.

In the event that the Group determines that investments in subsidiaries, associates, jointly controlled entities and other companies carried at cost should be impaired, the impairment loss is recognised as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets. The impairment loss is recognised in the income statement as a revaluation financial expense.

Impairment loss on available-for sale financial assets is recognised in the income statement as the difference between the investment's carrying amount and market or fair value on the balance sheet date. In 2010, we did not impair any of these investments.

Statement of other comprehensive income

In the statement of other comprehensive income, the Company reports revenue and expenses (inclusive of any adjustments due to reclassification) that are not included in the income statement in accordance with other IFRS.

Cash flow statement

The cash flow statement is presented using an indirect method, on the basis of the balance sheet items as of 31 December 2010 and 31 December 2009, as well as the items in the income statement for the prior financial year, inclusive of any necessary adjustments to the cash flows.

Statement of changes in equity

The statement of changes in equity is a presentation of movements in individual equity elements during the financial year under review (total revenues and expenses as well as transactions with owners when they operate in their capacity as owners), inclusive of the net profit distribution. A statement of comprehensive income is also included, which increases the net profit of the accounting period by total revenue directly recognised in the equity.

New standards and interpretations which are not yet in effect

Early application of IFRSs and IFRICs not yet in effect

The Luka Koper Group has not adopted any standards or interpretations that are not yet effective but which will come into force in the future.

In accordance with the IFRIC and the EU, companies will have to follow the following amended standards and interpretations in future periods:

Amendments to IFRS 1 The aforementioned exceptions from the requirements of comparable disclosure according to IFRS 7 for the first standard users.

IAS 24 – *Related party Disclosures*
Applicable for periods beginning after 1 January 2011
Amendments to IAS 24 define in more detail and simplify the definition of a related party. Furthermore, the amended standard reduces the scope of disclosures of transactions of a government owned entity with the government and other government owned entities.

IAS 32 – *Financial Instruments: Presentation Classification of Rights Issues Denominated in Foreign Currency*
Applicable for periods beginning after 1 February 2010.
Amendments to IAS 32 allow an entity issuing rights to purchase shares in foreign currency the option not to recognise the rights as derivatives and to recognise the effect on the PNL. These rights are now classified as equity instruments if they fulfil certain criteria.

IFRIC 14 – *Advance Payments Based on Minimum Funding Requirements (Amendment)*
Amendment to IFRIC 14 comes into effect on 1 January 2011, and is applied retrospectively. The amendment contains an instruction for the assessment of the market value of all net pension amounts. The amendments enable companies to recognise advance payment, based on the minimum funding requirement, as assets.

IFRIC 19 – *Extinguishing Financial Liabilities with Equity Instruments*
The interpretation comes into effect on 1 July 2010. It explains that equity instruments, issued by a company to a creditor in exchange of finance liabilities, are treated as payment of liabilities, whereby equity instruments are measured at fair value. If the fair value of equity instruments cannot be measured reliably, the instruments are measured at the fair value of the extinguished liability. A company immediately recognises all profits and losses in the income statement. This interpretation does not affect the Group's accounting standards.

The following new and amended IFRS will be adopted in future periods as required by International Financial Reporting Standards, if endorsed by the EU:

IFRS 9 – *Financial Instruments*
The Standard replaces IAS 39 and is applicable for periods commencing on 1 January 2013. The first part of the standard introduces new requirements for classifying and measuring financial assets.

Amendment to IFRS 7 – *Financial Instruments* – Disclosures on Enhancing Disclosures about Transfers of Financial Assets. Amendments were issued in October 2010.
The amendment explains the consequences of financial asset transfer and the possible resulting risks that the transferors are exposed to.

IAS 34 – *Interim Financial Reporting*
It becomes effective on 1 January 2011. The amendments provide guidance for the preparation of disclosures in accordance with IAS 34. New requirements regarding disclosures are also provided.

IAS 12 – *Deferred tax (amended)*
The amendment becomes effective for annual periods starting on or after 1 January 2012. It refers to the determination of deferred tax for investment property carried at the fair value. The aim of this amendment is to include a) the assumption that deferred tax for investment property carried at fair value in accordance with IAS 40 is determined based on the supposition that the investment property's book value will return through the sale, and b) the requirement that the deferred tax for the assets which do not depreciate and are carried at the revaluation model from IAS 16, is always measured based on the sale value of these assets.

Improvements to IFRS
In May 2010 the Board published improvements to IFRS and issued its omnibus of amendments to these standards. The amendments have not yet been adopted, and will come into effect as of 1 July 2010 or 1 January 2011.

MSRP 3	Business Combinations
MSRP 7	Financial Instruments: Disclosures
MRS 1	Presentation of Financial Statements
MRS 27	Consolidated and Separate Financial Statements
OPMSRP 13	Customer Loyalty Programmes

Basis for Consolidation

Subsidiaries
Subsidiaries are companies managed by another (parent) company. Management means a possibility of deciding on financial and operating orientations of the company in order to obtain benefits from its operations. When assessing the influence of the company, the existence and effect of possible voting rights, which can currently be exercised or exchanged, is considered. Increases in equity ownership interest in subsidiaries are recognised as equity transactions.
Financial statements of subsidiaries are included in consolidated financial statements as of the date when such management starts, until the date when it terminates.

Jointly controlled companies
Joint control is contractually agreed division of control and exists when strategic decisions on financing and performance, relating to company operation, require consents of the parties who share the control. They are included in the consolidated financial statements under the equity method.

Transactions not included in consolidation
The consolidated financial statements exclude the balances, unrealised gains and losses or revenue and expenditure arising from intra-Group transactions. Unrealised losses are derecognised in the same way as profits, provided that no evidence of impairment exists.

Judgements and sources of uncertainty

Risk management
The companies in the Group monitor and strive to manage risks at all levels of the business. In the assessment of risks, the Group considers various risk factors and compares costs with the associated benefits. Appropriate risk management is ensured by the timely identification and management of risk, and by the relevant guidelines and policies which are laid down in the overall management system documentation.

The Group's operations are exposed to strategic, operational and financial risks, which are largely dependent on market laws and their active monitoring. The procedures for risk identification, in addition to the level of exposure and probability of damage that can occur, are described in the chapter headed Risk management on page 78. In addition to strategic and operational risks, the Group also encounters financial risks, the most significant of which include the risk of fair value changes, interest rate risk, liquidity risk, currency risk and credit risk, as well as the risk of adequate capital composition. The way in which financial risks are identified and managed is disclosed in Note 32: Risk management of the Luka Koper Group.

Segments

IFRS 8 – Operating segments
This standard requires an entity to adopt a management approach to reporting on the financial performance of its operating segments. As such, it replaces the requirement for determining and reporting by business and regional segments.

The group has identified one business segment. The disclosure at Group level is provided in the table below.

Year 2010	Slovenija/€	Tuji trg/€	Skupaj/€
Income			
Sales to customers	42,874,842	82,300,459	**125,175,301**
Total segment income	42,874,842	82,300,459	**125,175,301**

Year 2009	Slovenija/€	Tuji trg/€	Skupaj/€
Income			
Sales to customers	38,870,684	74,938,734	**113,809,418**
Total segment income	38,870,684	74,938,734	**113,809,418**

31. 12. 2010	Slovenia/€		Tuji trg/€	Skupaj/€
	Balance	Increases		
Intangible assets and long-term deferred costs	7,299,398	531.877	—	7.299.398
Property, plant and equipment	373,840,418	19,617,376	—	373,840,418
Investment property	17,512,207	9.161	—	17.512.207
Total	**398,775,473**	**20,158,414**	**—**	**398,775,473**

31. 12. 2009	Slovenia/€		Tuji trg/€	Skupaj/€
	Balance	Increases		
Intangible assets and long-term deferred costs	7,024,047	1,399,612	—	7,024,047
Property, plant and equipment	387,867,394	108,934,611	—	387,867,394
Investment property	18,438,868	246.922	—	18.438.868
Total	**413,330,309**	**110,581**	**—**	**413,330,309**

ADDITIONAL NOTES TO THE INCOME STATEMENT

Note 1: Net sales

	2010/€	2009/€
Net sales	**127,738,666**	**116,124,640**
Sales on the domestic market	**42,874,842**	**38,870,684**
Revenue from the sale of services in the domestic market	41,007,158	36,830,980
Revenue from the sale of goods in the domestic market	31,301	247,646
Rental income on the domestic market	1,836,383	1,792,058
Sales in foreign markets	**82,300,458**	**74,938,734**
Revenue from the sale of services in foreign markets	82,286,518	74,932,418
Rental income in foreign markets	13,940	6,316
Capitalised own products	**4,315**	**—**
Other operating revenue	**2,559,051**	**2,315,222**
Revaluation operating revenue	80,347	52,184
Other	2,478,704	2,263,038

In 2010, the Group achieved an operating income of €4,045,007 (2009: €3,714,663).

Note 2: Cost of goods, materials and services

	2010/€	2009/€
COST OF MATERIALS	**9,028,631**	**7,982,595**
Cost of materials	135,264	178,336
Cost of auxiliary materials	2,460,867	2,406,514
Cost of power supply	5,882,650	4,821,340
Cost of office supplies and professional literature	136,454	179,048
Other cost of materials	413,396	397,357
COST OF GOODS	**—**	**90,964**
Cost of goods sold	—	90,964

	2010/€	2009/€
COSTS OF SERVICES	**34,132,125**	**32,648,415**
Costs of physical services	13,169,606	11,410,691
Costs of transport services	249,883	374,825
Costs of maintenance services	5,944,470	4,573,987
Lease payments	945,423	2,091,833
Reimbursements of work-related costs to employees	299,942	426,518
Costs of payment processing and insurance premiums	454,244	486,513
Costs of professional and personal services	1,158,389	1,418,849
Costs of advertising, trade fairs and hospitality	1,220,409	1,693,866
Costs of services rendered by natural persons	99,072	114,030
Costs of other services	10,590,687	10,057,303

The costs of professional and personal services also include audit fees. The total audit fee for the audit of the financial statements for 2010 came to €41,000, whereas the costs of other assurance services were €71,272. The majority of costs for other services include IT support, amounting to €3,214,027 (2009: €3,431,898). The costs associated with the concession fee amounted to €3,957,324 (2009: €3,553,460).

In the category of payment processing costs and insurance premiums, the insurance premiums amount to €397,808. The Group has insured the following: basic fire risks for property to an agreed new value, liability for damage to third persons, and fire insurance for some foreign goods. In accordance with the Concession Agreement, the Port infrastructure intended for public transport is also insured (both the infrastructure owned by the company as well as long-term lease infrastructure).

Note 3: Labour costs

	2010/€	2009/€
LABOUR COSTS	**36,100,965**	**37,012,330**
Salaries	23,327,623	23,212,871
Salary compensation	3,934,857	4,445,676
Costs of supplementary pension insurance	1,127,251	1,172,881
Annual leave allowance, reimbursements and other costs	3,319,761	3,706,477
Employer's salary contributions	4,391,473	4,474,425

In 2010, the number of employees in the Group fell to 997 as at 31 December 2010, whereas the number of employees as at 31 December 2009 was 1,031. The average number of employees in 2010 was 1,014 and 1,052.5 in 2009.

Average number of employees of the Luka Koper Group by educational level in 2010 and 2009

Educational level	Average in 2010		Average in 2009	
	Luka, d. d.	Group	Luka, d. d.	Group
VIII/2	2	2	1,5	1,5
VIII/1	15	16	16	17,5
VII	93	103	94	101
VI/2	113	118	111	117,5
VI/1	48	58	46	55,5
V	230	263	241,5	276,5
IV	183	256	188	270
III	19	27	22,5	32
I—II	54	171	57	181
TOTAL	**757**	**1,014**	**777,5**	**1,052.5**

In 2010, the annual leave allowance amounted to €910 per employee, compared to €940 in 2009.

In 2010, all employees apart from the Members of the Management Board received an additional average salary (13th salary). Other benefits awarded to employees include the payment of supplementary pension insurance premiums by the employer, which has been funding the pension scheme for the ninth consecutive year.

Note 4: Write-downs

	2010/€	2009/€
Write-downs	**28,267,008**	**35,499,113**
Amortization of intangible assets	152,946	150,263
Depreciation of buildings	11,456,224	10,107,395
Depreciation of equipment and small tools	14,617,121	11,838,875
Depreciation of investment property	42,507	1,792
Revaluation operating expenses for property, plant and equipment	56,867	13,379,056
Revaluation operating expenses for current assets	1,941,343	21,731

Depreciation and amortization rates were unaltered in 2010. Borrowing costs of €97,621, which could be directly attributed to the purchase or construction of an asset in preparation, were capitalised and attributed to the cost of fixed assets. The capitalisation rate used for determining the amount of borrowing costs was between 3.19% and 3.59% in 2010.

An important item is the impairment of a long-term operating receivable in the amount of €1,470,883, which refers to covering the costs for the Pannonia during the 2008–2010 project.

Note 5: Provisions

	2010/€	2009/€
Provisions	**(251,369)**	**2,775,425**
Provisions for damages	(191,484)	309,121
Provisions for ordinary maintenance	(59,885)	2,466,304

The movement of provisions is described in Note 27.

Note 6: Other operating expenses

	2010/€	2009/€
Other expenses	**6,267,365**	**8,294,499**
Charges unrelated to labour costs or other costs	5,321,641	7,432,188
Environment protection expenditure	196,657	274,671
Awards and scholarship to students	5,699	5,958
Other costs	743,368	581,682

Charges unrelated to labour costs include, in particular, the fee for the land allocated for construction purposes, which amounted to €4,841,289 (in 2009: €4,679,946).

Note 7: Finance income

	2010/€	2009/€
TOTAL FINANCE INCOME	**2,309,705**	**4,414,543**
Finance income from interests	**1,830,707**	**3,673,759**
Finance income from interests in associates	573,340	959,032
Finance income from interests in other companies	1,257,367	2,714,727
Finance income from loans	**288,753**	**485,826**
Finance income from loans to others	288,753	485,826
Finance income from operating receivables	**190,245**	**254,958**
Finance income from operating receivables due from others	156,300	226,191
Foreign exchange gains	33,945	28,767

Finance income from interests in other companies have halved as result of decreased revenue from dividend payments.

Note 8: Finance expenses

	2010/€	2009/€
TOTAL FINANCE EXPENSES	**19,805,295**	**68,408,058**
Finance expenses for impairment and write-off of investments	**11,069,760**	**59,054,315**
Finance expenses relating to associates	6,736,095	36,622,020
Finance expenses relating to others	4,333,665	22,432,295
Finance expenses for financial liabilities	8,630,936	8,248,765
Finance expenses for borrowings from associates	37,484	34,554
Finance expenses for borrowings from banks	8,593,452	8,193,497
Finance expenses for other financial liabilities	—	20,714
Finance expenses for operating liabilities	**104,599**	**1,104,978**
Finance expenses for supplier payables and bills payable	52,196	7,210
Finance expenses for other operating liabilities	52,403	1,097,768

The majority of the impairment of investments in the amount of €7,215,417 is a result of the appraisal of some investments, which have shown signs of impairment in accordance with our adopted method and policies. Other important items among the expenses arising from the impairment of investments are:

Expenses for investment impairment of the Group amount to €4,216,948 and refer to the 100% impairment of the investment in the associates Adriasole, d.o.o., Ecoporto, d.o.o., and Golf Istra, d.o.o., totalling €170,148. The impairment of Adriasole d.o.o. and Ecoporto d.o.o. was made on the basis of an appraisal carried out by an independent appraiser of company values. The method of adjusted book values was applied, with the value base being the value for the investor according to the International Valuation Standards (IVS 2007).

- Expenses for investment impairment distributed to non-current assets (disposal group) held for sale refer to the impairment of investment in Intereuropa, d.d. in the amount of €2,348,999. The impairment of investment in Intereuropa was made on 31 December 2010 using an 8-year projection of free cash flow with a 12% discount rate, whereas cash flows above 8 years were extrapolated with a 2% growth rate.
- Expenses for the impairment of other investments at cost amount to €1,435,978.
- Expenses for the impairment of other investments refer to the impairment of the loan totalling €1,392,339 based on a property appraisal (the Pannonia project).

In 2010, the Group's financial expenses for borrowings amounted to €8,630,936 compared to €8,248,765 for the prior year. A 4% increase in the financial expenses for interest compared to the prior year at the Group level is primarily the result of slightly higher interest rates. A more detailed analysis of the interest rate risk and the sensitivity of financial liabilities according to the changed variable interest rates is provided in Note 32: Risk management of the Luka Koper Group.

Note 9: Total PNL

In 2010, the Luka Koper Group incurred a loss of total €3,301,651, whereas in 2009 the loss totalled €72,172,215.

Note 10: Corporate income tax

All Group companies calculate corporate income tax in accordance with the Corporate Income Tax Act. The corporate income tax amount of €391,250 represents the sum of taxes payable by individual Group companies. Income tax for the year 2009 stood at €410,990.

	2010/€	2009/€
Profit/(loss) before tax	**(3.301.652)**	**(72.172.215)**
Income tax (20% as of 2010; 21% as of 2009)	660,330	15,156,165
Tax relief for the employment of disabled persons	210,282	895,728
Other tax relief	297,254	1,170,289
Expenditure not recognised for tax and other increases in tax basis	(630,989)	(449,702)
Tax base increase – investment impairment	(509,409)	(14,089,750)
Non-taxable income	370,532	2,886,971
Income tax	398,000	5,569,701
Effective tax rate	**—**	**—**

Note 11: Deferred tax

Deferred taxes decreased the net loss by €789,250 (2009: €5,980,691). Deferred tax assets were made on account of investment impairment, provisions for jubilee benefits, termination benefits, damages, and unutilised tax losses for the current year. On the other hand, deferred tax was reduced due to the utilisation of provisions for jubilee benefits and termination benefits and as a result of the disposal of previously impaired investments.

Deferred tax assets and liabilities recognised in the PNL are presented below:

	31. 12. 2010/€	31. 12. 2009/€
Defered tax recognited in the income statement	**789,250**	**5,980,691**
Provisions for damages, jubilee and termination benefits	(78,366)	(250,192)
Unutilised tax losses	(903,272)	2,545,211
Accured costs and deferred revenue	(11,977)	493,261
Allowances for receivables	364,305	25,829
Non-current investments	1,418,560	3,166,582

Deferred tax assets and liabilities recognised in the comprehensive income are presented below:

	31. 12. 2010/€	31. 12. 2009/€
Deferred tax on changes in fair value of avaliable - for - sale financial assets	**132,427**	**1,437,826**

Note 12: Net profit or loss for the period

The net profit or loss of the Group (the majority shareholder) was a loss totalling €2,903,652 (2009: €66,303,732).

Net profit or loss of subsidiaries

Subsidiaries	**Net profit/(loss) €**	**Net profit/(loss) €**
	31. 12. 2010	**31. 12. 2009**
Luka Koper Pristan, d.o.o.	**(499,032)**	**80,854**
Profit	120,968	80,854
Interest repaid	(620,000)	
Luka Koper Inpo, d.o.o.	**(1,324)**	**1,271,859**
Profit	2,263,206	
Interest repaid	(2,264,530)	
Adria terminali, d.o.o.	**(375,838)**	**(234,129)**
Adria investicije, d.o.o.	**11,213**	**11,314**

Attributable profits/losses of associates and jointly controlled companies

Associates	31. 12. 2010/€	31. 12. 2009/€
Avtoservis, d.o.o.	**(366,469)**	**145,963**
Profit attributed under the equity method	109,483	475,952
Interest repaid	(475,952)	(329,989)
Golf Istra, d.o.o.		
Profit/(loss) attributed under the equity method	23,511	(28,336)
TOC, d.o.o.		
Loss attributed under the equity method	(7,161)	(101,624)
Railport Arad s.r.l.		
Profit/loss attributed under the equity method	(255,411)	26,966
Jointly controlled companies		
Adriafin, d.o.o.	**(98,351)**	**(631,178)**
Profit attributed under the equity method	64,135	7,486
Interest repaid	(162,486)	(638,664)
Adriatransport, d.o.o.		
Profit attributed under the equity method	78,542	73,076
Adria-tow, d.o.o.	**283,817**	**275,551**
Profit attributed under the equity method	483,817	375,551
Interest repaid	(200,000)	100,000
Ecoporto, d. o. o	**—**	**(90,227)**
Adriasole, d.o.o.	**—**	**(89,443)**

ADDITIONAL NOTES TO THE BALANCE SHEET

Note 13: Intangible assets

	31. 12. 2010/€	31. 12. 2009/€
Intangible assets	**7,299,398**	**7,024,047**
Long-term property rights	7,299,398	7,024,047

Intangible assets were not impaired in 2010. The changes in the related adjustments are shown in the attached table in Note 15 for 2010, with the 2009 figures provided for comparison. No intangible assets were pledged as security.

Note 14: Property, plant and equipment

	31. 12. 2010/€	31. 12. 2009/€
Property, plant and equipment	**373,840,417**	**387,867,394**
Land	12,072,877	12,072,877
Buildings	246,239,204	226,583,888
Plant and machinery	88,756,918	98,533,530
Other plant and equipment	148,951	148,952
Fixed assets being acquired	26,622,467	50,528,147
Advances for fixed assets	**505,222**	**3,108,058**
Advances for acquisition of fixed assets	505,222	3,108,058

The Luka Koper Group measures the items of property, plant and equipment at cost, less any accumulated depreciation and impairments. The useful life assessed remained unchanged in 2010.
The subsidiary Adria-Tow, d.o.o. pledged two tugboats, with an estimated value of €4,600,000, to Luka Koper, d.d. as collateral for loan liabilities. No other fixed assets were pledged by the Group. As at 31 December 2010, outstanding trade liabilities relating to fixed assets amounted to €3,841,631.
Changes in the value of fixed assets are detailed in the attached tables of changes in fixed assets in Note 15.

Note 15: Investment property

	31. 12. 2010/€	31. 12. 2009/€
Investment property	**17,512,207**	**18,438,868**

Investment property consists of buildings and land that are leased out to unrelated companies under an operating lease and land which is held in order to increase its value in the long-term. The equity interest in the assets is checked on a regular basis.

Changes in property, plant and equipment, investment property, intangible assets as well as adjustments to their values are presented in the tables below for 2010 and, for comparison purposes, 2009.

TABLE OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS IN 2010

	Land €	Buildings €	Plant and equipment €	Fixed assets being acquired €	TOTAL €	Intangible assets €	Intangible assets being acquired €	TOTAL €
Cost								
As at 1 January 2010	**12,072,877**	**367,357,607**	**224,431,817**	**47,420,088**	**651,282,389**	**11,909,003**	**6,484,499**	**18,393,502**
Decreases in the initial balance – disposal			**(597,528)**	**(2,969,295)**	**(3,566,823)**			
Transfer of the opening balance impairment		**4,015**			**4,015**			
Transfer of opening balance among associates		**595,585**			**595,585**			
Additions		424,751	2,479,601	16,713,024	19,617,376		531,877	531,877
Transfer to use		29,538,234	3,549,493	(33,394,854)	(307,127)	6,534	(4,414)	2,120
Disposals		(155,940)	(3,158,455)		(3,314,395)			
Transfer from investment property		1,192,326			1,192,326			
Transfer to the sales account		(9,820)	(263,246)		(273,066)			
Transfers to non-current operating receivables				(1,757,419)	(1,757,419)			
Transfers to investments				105,701	105,701		(105,701)	(105,701)
Increases from the sales account			126,843		126,843			
As at 31 December 2010	**12,072,877**	**398,946,758**	**226,568,525**	**26,117,245**	**663,705,405**	**11,915,537**	**6,906,261**	**18,821,798**
Accumulated depreciation								
As at 1 January2010		**140,773,719**	**125,749,336**		**266,523,055**	**11,369,454**		**11,369,454**
Decrease in the initial balance - disposal		**(597,644)**			**(597,644)**			
Depreciation		11,456,224	14,617,121		26,073,345	152,946		152,946
Disposals		(107,251)	(2,610,822)		(2,718,073)			
Transfer from investment property		1,192,326			1,192,326			
Transfer to the sales account		(9,820)	(219,823)		(229,643)			
Transfer from investment			126,843		126,843			
As at 31 December 2010	**—**	**152,707,554**	**137,662,655**	**—**	**290,370,209**	**11,522,400**	**—**	**11,522,400**
Advances given				**505,222**	**505,222**			
As at 31 December 2010	**—**	**—**	**—**	**505,222**	**505,222**	**—**	**—**	**—**
Carrying amount				—				
As at 1 January 2010	**12,072,877**	**226,583,888**	**98,682,481**	**50,528,146**	**387,867,392**	**539,549**	**6,484,499**	**7,024,048**
As at 31 December 2010	**12,072,877**	**246,239,204**	**88,905,870**	**26,622,467**	**373,840,418**	**393,137**	**690,6,261**	**7,299,398**

TABLE OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS IN 2009

	Land €	Buildings €	Plant and equipment €	Fixed assets being acquired €	TOTAL €	Intangible assets €	Intangible assets being acquired €	TOTAL €
Cost								
As at 1.1.2009	**31,353,966**	**285,688,294**	**185,045,486**	**77,325,371**	**579,413,117**	**11,825,570**	**5,291,663**	**17,117,233**
Decreases in the initial balance – disposal		**(33,373)**	**(12,283,391)**		**(12,316,764)**	**(2,474)**		**(2,474)**
Additions		408,910	2,711,276	111,072,329	113,594,987	11,376	1,342,675	1,354,051
Transfer to use	3,422,400	70,892,497	52,350,425	(131,466,257)	(4,800,935)	79,580		79,580
Disposals		(535,597)	(3,173,992)	(7,561,355)	(11,270,944)	(5,049)	(149,839)	(154,888)
Transfer to investment property	(23,633,768)	(31,607)			(23,665,375)			
Transfer to the sales account			(217,987)	(1,950,000)	(2,167,987)			
Transfer from investments property	930,279	10,968,483			11,898,762			
As at 31.12.2009	**12,072,877**	**367,357,607**	**224,431,817**	**47,420,088**	**651,282,389**	**11,909,003**	**6,484,499**	**18,393,502**
Accumulated depreciation								
As at 1.1.2009		**127,035,310**	**121,661,412**		**248,696,722**	**11,221,417**		**11,221,417**
Decrease in the initial balance - disposal		(667)	(4,726,704)		(4,727,371)	(2,225)		(2,225)
Depreciation		10,107,396	11,838,874		21,946,270	150,262		150,262
Disposals		(118,788)	(2,836,581)		(2,955,369)			
Transfer to investment property		(12,625)			(12,625)			
Transfer to the sales account			(187,665)		(187,665)			
Transfer from investment property		3,763,093			3,763,093			
As at 31.12.2009		**140,773,719**	**125,749,336**		**266,523,055**	**11,369,454**		**11,369,454**
Advances given				3,108,058				
Carrying amount								
As at 1.1.2009	**31,353,966**	**158,652,984**	**63,384,074**	**77,325,371**	**330,716,395**	**604,153**	**5,291,663**	**5,895,816**
As at 31.12.2009	**12,072,877**	**226,583,888**	**98,682,481**	**50,528,146**	**387,867,394**	**539,549**	**6,484,499**	**7,024,048**

TABLE OF CHANGES IN INVESTMENT PROPERTY 2010

	Investment property €	Investment property being acquired €	Total investment property €
Cost			
As at 1 January 2010	**13,727,771**	**4,762,488**	**18,490,259**
Additions	5,146		5,146
Transfer to use		305,006	305,006
Transfer to investment property	4,762,488	(4,762,488)	—
Decrease	(1,980)		(1,980)
Transfer from investments to land and buil-dings	(1,192,326)		(1,192,326)
Transfer from investment property to land and buildings			
Impairment			
As at 31.12.2010	**17,301,099**	**305,006**	**17,606,105**
Accumulated depreciation			
As at 1.1.2010	**51,391**		**51,391**
Depreciation	42,507		42,507
Transfer to investment property			
Transfer from investment property			
Decrease			
Transfer from investments property to land and buildings			
As at 31.12.2010	**93,898**		**93,898**
Carrying amount			
As at 1.1.2010	**13,676,380**	**4,762,488**	**18,438,868**
As at 31.12.2010	**17,207,201**	**305,006**	**17,512,207**

TABLE OF CHANGES IN INVESTMENT PROPERTY 2009

	Investment property €	Investment property being acquired €	Total investment property €
Cost			
As at 1.1.2009	**7,354,206**		**7,354,206**
Additions	250,937		250,937
Transfer to use		4,762,488	4,762,488
Transfer to investment property	23,665,375		23,665,375
Transfer from investments property to land and buildings	(11,898,762)		(11,898,762)
Impairment	(5,643,985)		(5,643,985)
As at 31.12.2009	**13,727,771**	**4,762,488**	**18,490,259**
Accumulated depreciation			
As at 1.1.2009	**3,800,067**		**3,800,067**
Depreciation	1,792		1,792
Transfer to investment property	12,625		12,625
Transfer from investments property to land and buildings	(3,763,093)		(3,763,093)
As at 31.12.2009	**51,391**		**51,391**
Carrying amount			
As at 1.1.2009	**3,554,139**		
As at 31.12.2009	**13,676,380**	**4,762,488**	**18,438,868**

Note 16: Business combinations

In March 2010, Luka Koper, d.d. purchased the remaining interest (49%) in Adria terminali d.o.o. from Spedition Trade Terminal Holding, a.s, thereby becoming the sole owner of the company. The total cost of the investment was €1,430,000; due to the signs of impairment, the company made the investment impairment in 2009 in the amount of €643,225.
The acquisition of additional share was settled by the Group within the equity items.

Note 17: Long-term investments

	31. 12. 2010/€	31. 12. 2009/€
Long-term investments	**51,015,089**	**82,826,382**
Long-term investments except loans	**48,671,349**	**80,072,885**
Interest in associates	12,826,668	32,248,124
Other shares and interests at fair value	28,669,236	37,750,453
Other shares and interests at cost	7,175,445	10,074,308
Long-term loans	**2,343,740**	**2,753,497**

Long-term investments excluding loans

On the last day of the 2010 financial year, the Group's long-term investments totalled €48,671,349 and accounted for 9.5% of its total assets. The investments mostly consist of the parent company's investments in associates and jointly-controlled companies, and other investments in securities and interests.

Investments in associates and jointly-controlled companies are carried under the equity method. Due to the planned sale of Intereuropa shares, we transferred this investment in the non-current assets held for sale. Besides the transfer, we made permanent impairment in the amount of €4,387,094 for investments in associates.

The value of investments, carried at fair value, is based on stock market prices and amount to €28,669,236 as at 31 December 2010. Compared to 2009, they decreased due to the sale of investments in management and mutual funds.

All other long-term investments carried at cost in the amount of €7,175,445, include non-marketable securities and interests. This category too was permanently impaired by €1,435,978.

Long-term loans

As at 31 December 2010, long-term loans amounted to €2,343,740. A total of 8% represents mortgages approved to employees, 34% represents the bonds of Slovenska odškodninska družba, and 58% represents accounts for investments in bank deposits. Mortgages with annual instalments falling due in 2011 total €125,949 and are presented among the short-term loans to others.

Among investments in securities with a fixed rate of return, the largest share is investments in bonds issued by Slovenian commercial banks with maturities through to 2020. As at 31 December 2010, the amortized cost of these investments of €2.1m (2009: €2.3m) is a result of a portion of the principal maturing with redeemed coupons. The interest rate spread for investments classified as loans ranges between the nominal amounts of 2.4% and 6%.

Note 18: Long-term operating receivables

	31. 12. 2010/€	31. 12. 2009/€
Long-term operating receivables	**41,559**	**220,307**
Long-term operating receivables due from others	41,559	220,307

Note 19: Deferred tax assets

	31. 12. 2010/€	31. 12. 2009/€
Deferred tax assets	**9,416,185**	**8,626,936**

Deferred tax assets are accounted for through temporary differences arising from the creation of provisions for employee benefits, unused tax losses and the impairment of available-for-sale investments through profit or loss.

Deferred tax assets relate to the following:

	31. 12. 2010/€	31. 12. 2009/€
Provisions	655,808	746,151
Unused tax losses	1,701,622	2,542,211
Long-term investments and receivables	7,058,755	5,338,574
Total	**9,416,185**	**8,626,936**

Note 20: Assets (of disposal groups) held for sale

	31. 12. 2010/€	31. 12. 2009/€
Current assets (of disposal groups) held for sale	**18,224,413**	**1,382,987**
Fixed assets	1,426,412	1,382,987
Investments	16,798,001	—

Based on the interest expressed in buying the shares of Intereuropa, d. d., and in accordance with the adopted segmentation and policy of investment management, the Management Board of the Company decided to carry out the sale of interest in Intereuropa, d. d. In December 2010, it announced a public invitation for offer on SEOnet.
In 2010 we therefore transferred a long-term investment to Intereuropa, with a book value of €19,147,000, to this group, additionally impairing it by €2,348,999 on the basis of the appraisal.

Note 21: Inventories

Inventories are held by the subsidiary Luka Koper Pristan, d.o.o. which carries out restaurant and hotel management activities. The company did not pledge any inventories as collateral for liabilities and neither were any inventories written-off. As at 31 December 2010, the value of inventories stood at €12,688 (in 2009: €13,751).

Note 22: Short-term investments

	31. 12. 2010/€	31. 12. 2009/€
Short-term investments	**837,691**	**3,228,597**
Short-term loans to others	837,691	531,575
Short-term loans to associates	—	—
Deposits with banks	—	2,697,022

The short-term investments of Luka Koper Group amounted to €837,691 as at 31 December 2010.
The value of short-term loans has increased by 58% due to new loans and the transfer of long-term mortgage instalments totalling €125,949, which fall due in 2011.
All short-term investments related to deposits were paid in 2010, and there were no new investments of this kind.

Note 23: Short-term operating receivables

	31. 12. 2010/€	31. 12. 2009/€
Short-term operating receivables	**22,980,690**	**20,785,066**
Short-term domestic trade receivables	5,991,849	6,007,078
Bad debt allowance	(174,664)	(121,090)
Short-term foreign trade receivables	8,618,981	3,434,275
Advances for current assets	5,481	14,999
Short-term operating receivables from exports	6,184,268	5,177,311
Bad debt allowance	(36,774)	(30,742)
Short-term interest receivable	167,717	163,726
Bad debt allowance	(43,434)	(18,992)
Input VAT receivables	718,445	1,061,162
Other short-term receivables	539,089	560,741
Income tax receivables	—	302,131
Receivables for taxes and excise duties	1,009,732	4,234,467

With most trade receivables, the Luka Koper Group has an option to enforce a lien over warehoused goods in its possession, in accordance with Article 167 of the Law of Property Code. The Luka Koper Group has no claims towards Members of the Management Board and the Supervisory Board, or towards the Managing Directors of Group companies. Allowances have already been made for receivables that are more than 365 days overdue; i.e. for doubtful receivables (bankruptcy, compulsory composition, and similar).

Maturity of trade receivables

Maturity	31. 12. 2010/€	31. 12. 2009/€
Outstanding trade receivables not past due, not impaired	**18,839,320**	**11,706,338**
Up to 30 days	2,274,509	1,486,992
31 to 60 days overdue	248,081	586,248
61 to 90 days overdue	174,833	196,425
91 to180 days	248,934	191,378
181 to 365 days	288,915	256,347
More than 365 days	312,332	187,838
Total outstanding and not impaired	**3,291,598**	**2,734,405**
Past due, and partly impaired	**256,006**	**170,823**
Total trade receivables	**22,386,924**	**14,611,567**

NB: the amount also includes interest receivable, but not foreign exchange rate differences or advances.

Changes in bad debt allowance	2010/€	2009/€
Bad debt allowance at 1 January 2009	**170,823**	**457,316**
-write-downs during the year	69,113	288,477
-payments during the year	6,945	42,188
+additional increase in bad debt allowance	161,241	44,172
Closing balance at 31 December 2009	**256,006**	**170,823**

Note 24: Cash

Total cash, which amounted to €680,829 as at 31 December 2010 and €554,334 as at 31 December 2009, represents deposit money and short-term bank deposits with a maturity of up to 3 months. The Company has not agreed any automatic overdraft facilities on its current accounts with banks. For daily cash surpluses on transaction accounts, the Company has agreed framework contracts with a commercial bank and a contract for the transfer of any surplus cash, thus ensuring optimum liquidity.

Note 25: Deferred costs and accrued revenue

	31. 12. 2010/€	31. 12. 2009/€
DEFERRED COSTS AND ACCRUED REVENUE	**484,137**	**703,350**
Insurance premiums	60,418	58,210
Short-term deferred costs	104,783	151,755
Transitionally accrued revenue	318,936	493,385

Note 26: Equity

	31. 12. 2010/€	31. 12. 2009/€
EQUITY	**244,056,503**	**247,410,496**
MAJORITY SHAREHOLDERS' EQUITY	**244,056,503**	**247,043,315**
Share capital	58,420,965	58,420,965
Capital surplus	89,562,703	89,562,703
Legal reserves	18,882,890	18,876,842
Other revenue reserves	58,112,522	60,544,410
Revaluation surplus	10,514,887	11,044,595
Retained earnings	8,562,536	15,706,530
Net profit/(loss) for the period	—	(7,112,730)
MINORITY SHAREHOLDERS' EQUITY	**—**	**367,181**

The share capital consists of 14,000,000 registered ordinary no par value shares of the controlling company Luka Koper, d.d. which are freely transferable.
For further information regarding the ownership structure, share price changes, and the dividend distribution policy, see chapter "The LKPG Share" on page 71.

Revaluation surplus

The equity revaluation surplus of long-term investments of the available-for-sale group amounts to €10,514,886 and is €662,135 lower than in 2009 due to the sale of some investments and a decrease in value.

Capital surplus

Capital surplus is carried at amounts incurred by eliminating the general capital revaluation adjustment. It remained unchanged in 2010.

Revenue reserves

Revenue reserves comprise legal reserves and other revenue reserves. The latter were used to cover the parent company's net loss for the year.

Covering loss

The net profit or loss for the year is a loss totalling €2,903,652. We covered the loss of the parent company from other revenue reserves, and the remaining loss of the Group from retained profit.

Consolidated equity of the Luka Koper Group

The Group's consolidated equity is the sum of the majority owner's and minority owners' equity after offsetting the long-term investments of the parent company against the equity of subsidiaries in proportion to the parent company's interest in these companies. The consolidated equity of the Group therefore amounts to €244,056,503.

Net profit/(loss) per share

	2010/€	2009/€
Net profit/(loss) of majority shareholder	(2,903,652)	(66,303,732)
Weighted average number of ordinary shares	14,000,000	14,000,000
Basic and diluted earnings/(loss) per share	**(0.21)**	**(4.73)**

Dividend policy of Luka Koper, d. d.

The dividend policy of Luka Koper, d.d. represents a harmonised combination of the desire of the owners for dividend yields, and the wish to use the net profit for financing investment plans. In light of the operating results, the Company does not plan a dividend payment in 2010. Nevertheless, we plan for the Company to allocate up to one third of the net profit of a period in the future, considering the investment plans in port infrastructure and equipment.

Note 27: Provisions and accrued costs and deferred revenue

	31. 12. 2010/€	31. 12. 2009/€
PROVISIONS	**12,636,801**	**13,884,933**
Provisions for termination and jubilee benefits	1,495,685	1,692,691
Other provisions	4,378,787	2,392,744
Long-term accrued costs and deferred revenue	6,762,329	9,799,497

Movement of provisions and accrued costs and deferred revenue

	Provisions for damages, lawsuits and compensation €	Provisions for termination benefits on retirement €	Provisions for jubilee benefits €	Long-term accrued costs and deferred revenue €	Provisions for ordinary maintenance €	Total €
Opening balance at 1 January 2010	**2,392,744**	**1,270,035**	**422,657**	**7,333,193**	**2,466,304**	**13,884,933**
Created in 2010	1,706,396	24,382	460	5,513,737	1,674,877	8,919,852
Reversed in 2010	(2,126,773)	(203,783)	(18,066)	(6,084,601)	(1,734,762)	(10,167,985)
Closing balance at 31 December 2010	**1,972,368**	**1,090,634**	**405,051**	**6,762,329**	**2,406,419**	**12,636,801**

The provisions for termination benefits upon retirement and jubilee benefits were formed in the amount of the present value of expected future expenditure. The calculation of provisions for liabilities to employees regarding termination benefits and jubilee benefits for Luka Koper d.d. is based on an actuarial calculation as at 31 December 2010 taking the following into consideration:

- The currently applicable amount of termination and jubilee benefits,
- The average annual increase in gross salaries and average inflation in 2010,
- The mortality rate based on mortality tables in Slovenia for the period 2000–2002,
- A discount rate of 3.25%,
- Employee age fluctuations.

The provisions of other companies in the Group were reduced by the amount of jubilee benefits and termination benefits paid during the year, and increased by the new provisions made on the basis of the most recent actuarial calculation.
Provisions for lawsuits totalling €1,972,368 were made based on the estimated amount of potential damages provided by internal legal services or other external attorneys at law, taking existing lawsuits and claims for damages and potential new lawsuits and claims for damages into consideration. On the date of the balance sheet, a total of 57 lawsuits were filed against the Group. The total amount of lawsuits is €4.9m. In 2009, 30 lawsuits totalling €2.5m were filed against the Group.

In accordance with the Concession agreement, Luka Koper, d.d. has obtained the right and obligation to collect port dues, which represent income intended to cover the costs of the provision of commercial public services. Any surplus of revenue over costs is retained as a provision for the costs of ordinary maintenance of port infrastructure in future years.

Long-term accrued cost and deferred revenue items comprise deferred revenue from fixed assets acquired free of charge or grants for the acquisition of fixed assets as well as retained contributions on the salaries of employees working for the disability firm, Luka Koper INPO, d.o.o. The funds have been earmarked for a particular purpose and are mainly used to cover the fixed asset depreciation charge.

Note 28: Long-term liabilities

	31. 12. 2010/€	31. 12. 2009/€
FINANCIAL AND OPERATING LIABILITIES	**161,192,848**	**47,972,817**
Long-term financial liabilities	**158,376,144**	**45,032,490**
Long-term borrowings from banks	158,376,144	45,032,490
Long-term operating liabilities	**187,982**	**179,178**
Long-term operating liabilities	187,982	179,178
Deferred tax liabilities	**2,628,722**	**2,761,149**

Financial liabilities

The total borrowings from banks, long-term as well as short-term, decreased by €8,864,007 in 2010 compared to 2009. Long-term borrowings from banks total €158,376,144. In accordance with the provisions of IAS 1.65, we transferred long-term to short-term financial liabilities in 2009 due to the failure to meet the financial covenants under the loan contracts in Luka Koper d.d. (the amount of financial liabilities transferred in 2009 amounted to €105,079,000. As at 31 December 2010, financial liabilities are reported at original maturity; therefore, the amounts that were reclassified in 2009 were transferred back to long-term financial liabilities. In 2010, we met all the financial covenants under the loan contracts, with exception of that relating to a long-term loan of €5.8m, which is due to investment impairment. Only a part of the long-term loan principals falling due in 2011 was transferred to short-term liabilities.
All bank loans are dependent on a variable interest rate. Variable interest rates converted to the unified nominal annual interest rate as at 31 December 2010 are between 2.4% and 5.6%.

Principal balance of long-term borrowings as at 31 December 2010 and their maturity €	**2011 €**	**2012 €**	**2013 €**	**2014 €**	**2015 €**	**Period 2016 –2025 €**
224,879,000	66,202,339	28,893,860	45,478,860	15,437,860	15,331,161	53,534,921
Expected interest	6,655,831	5,118,921	3,993,666	2,885,770	2,306,369	7,718,549

Principal balance of long-term borrowings as at 31 December 2009 and their maturity should the banks withdraw from the contracts €	**2010 €**	**2011 €**	**2012 €**	**2013 €**	**2014 €**	**Period 2015–2019 €**
200,235,000	154,985,000	10,000,000	5,250,000	4,000,000	4,000,000	22,000,000

A more detailed analysis of interest rate risk and the sensitivity of financial liabilities in respect of a change in variable interest rates is provided in Note 32: Risk management of the Luka Koper Group

Long-term operating liabilities

Long-term operating liabilities include long-term collateral received in connection with leased business premises and deferred tax liabilities arising from the valuation of investments at fair value, which were recorded as a specific equity component. Deferred taxes were accounted for using a tax rate of 20%.

Note 29: Short-term liabilities

	31. 12. 2010/€	31. 12. 2009/€
Short-term financial liabilities	**67,893,506**	**189,506,103**
Short-term financial liabilities to associates	1,577,856	983,019
Short-term financial liabilities to banks	66,202,339	188,410,000
Short-term financial liabilities to others	113,311	113,083
Short-term operating liabilities	**15,780,021**	**31,406,453**
Short-term operating liabilities to associates	133,637	51,464
Short-term operating liabilities from advances	32,646	26,933
Short-term supplier payables	11,089,787	26,317,296
Short-term operating liabilities to others	4,523,951	5,010,759

Short-term financial liabilities

As at 31 December 2010, short-term financial liabilities to banks amounted to €66,202,339 (2009: €188,410,000) and represent the total amount of long-term financial liabilities falling due in 2011. In accordance with the financing policy, we restructured a part of the short-term financial liabilities into long-tem financial liabilities.

All bank guarantees are dependent on a variable interest rate. Variable interest rates converted to the unified nominal annual interest rate as at 31 December 2010 are between 2.4% and 5.6%.

The Group regularly settles financial liabilities in accordance with the agreed repayment plans.

Short-term operating liabilities

As at 31 December 2010, the Group had no outstanding liabilities to suppliers. Business liabilities are lower primarily due to decreased liabilities to suppliers for fixed assets.

Note 30: Accrued costs and deferred revenue

	31. 12. 2010/€	31. 12. 2009/€
ACCRUED COSTS AND DEFERRED REVENUE	**785,625**	**1,491,218**
Foreign commercial discounts	189,700	325,350
Accrued costs	595,925	1,165,868

Note 31: Off-balance sheet records

Off-balance sheet accounts include items that do not qualify for balance sheet recognition:

	31. 12. 2010/€	31. 12. 2009/€
Total off-balance sheet assets and liabilities	**10,751,637**	**10,997,403**
Liability for a loan guarantee issued to the subsidiary Adria-Tow, d.o.o.	—	808,500
Joint collateral for a guarantee granted by the subsidiary Adria Terminali, d.o.o.	250,000	250,000
Liabilities for a guarantee issued to the Ministry of Finance	1,260,000	1,260,000
Liability for outstanding letters of credit to suppliers	492,000	—
Guarantee to Banka Koper for loans	247,428	—
Subsidiary collateral for leasing and related party's borrowings	8,502,209	8,678,903

- Subsidiary collateral consists of the following amounts:
- €4,752,209 guaranteed to Adria Transport, d.o.o. in respect of the lease of train engines.
- €750,000 guaranteed for a loan raised by Railport Arad s.r.l.
- €3,000,000 guaranteed for a loan raised by Adria-tow, d.o.o.

Note 32: Risk management of the Luka Koper Group

The most significant financial risks of Luka Koper Group include:

- The risk of changes in fair value
- The risk of interest rate changes
- Liquidity risk
- The risk of foreign currency rate fluctuations
- Credit risk
- The risk of adequate capital structure

The management of financial risks has been organised by the parent company's finance department. The specifics of the existing economic environment make forecasting future financial categories even more demanding and introduce a higher degree of variability into the plans and, as a result, a higher level of risk. The Luka Koper Group has consequently tightened control in certain financial categories.

Managing the risk of changes in fair value

The Luka Koper Group has invested 5.7% of its assets (2009: 7.1%) in investments measured at fair value (through profit or loss) and investments in the fourth group (at fair value through equity). The fair value risk associated with these investments is demonstrated through changes in stock market prices that affect the value of these assets and, consequently, the potential capital gain upon their disposal. This type of risk was identified in association with investments made in managed investments – the market securities of successful Slovenian companies. Specific risks were managed primarily through the diversification of the portfolio. As at the last day of 2010, the value of investments at fair value amounted to €28,669,236. In light of the current conditions in the capital markets, it is difficult to forecast any future changes. Nevertheless the Group estimates that stock market prices have reached their lowest levels and that, in all likelihood, the value of all investments carried at fair value will stabilise at higher levels in a few years time. The sensitivity of investments to changes in fair value is shown in Table A.

Table A: Sensitivity analysis of investments to changes in fair value

Item	Balance at year end €	Increase in comparable class %	Envisaged increase in value €	Decrease in comparable class €	Envisaged decrease in value €
Year 2010					
Shares and interests at fair value	28,669,236	8.52	2,442,232	(5,21)	(1,494,837)
Shares and interests at fair value (10% change)	28,669,236	10.00	2,866,924	(10.00)	(2,866,924)
Shares and interests at fair value (annualised maximum change over the last five years)	28,669,236	70.97	20,345,929	(66.09)	(18,946,426)
Year 2009					
Shares and interests at fair value	37,750,453	9.59	3,618,741	(6.64)	(2,505,441)
Shares and interests at fair value (10% change)	37,750,453	10.00	3,775,045	(10.00)	(3,775,045)
Shares and interests at fair value (annualised maximum change over the last five years)	37,750,453	78.10	29,492,564	(67.49)	(25,479,542)

The sensitivity analysis of investments at fair value is made under the assumption that past fair value changes (the SBI TOP is used) will be reflected in future periods. The average variability of the class was assessed for the past five years by calculating the average deviation of daily values (both in terms of increases and decreases) from the annual trend of the SBI TOP index. According to the above analysis, we can assume that the fair value of an investment portfolio carried at fair value could decrease by 5.21% or increase by 8.52% in 2011. When considering the highest annual increase in the level of the index for this five-year period, we can expect the risk item to increase by 70.97% or decrease by 66.09% in 2011. If we further simplify our expectations by assuming a 10% increase in the value of the index, such growth would result in an increase in the fair value of the market securities portfolio by €2,866,924. A 10% decrease in the comparable class would have the opposite effect, reducing the fair value of these investments by the same amount. If this were the case, the total changed fair value would be recognised as either an increase or decrease of equity.

Fair value hierarchy

FA at fair value	31. 12. 2010 €	Level 1 €	Level 2	Level 3
Available-for-sale financial assets	28,669,236	28,669,236		
Securities and other investments	28,669,236	28,669,236		

The Luka Koper Group assesses that the fair values of financial assets and liabilities do not deviate significantly from the book values.

Management of the risk of changes in interest rates

Due to the structure of financial liabilities, the risk of changes in interest rates is increasingly more important as unexpected growth in variable interest rates can jeopardise the envisaged results. In 2010, the Luka Koper Group managed to decrease its financial liabilities by 3.5% compared to the prior year, reaching €226,269,650 as at the last day of 2010. The share of financial liabilities in the overall structure of liabilities rose from 44.1% in 2009, to 44.9% in 2010, thus proving that the Group keeps the structure of the liability side of the balance sheet at approximately the same level, thereby taking advantage of the financial lever's positive effects. In terms of financial liability structure, in 2010 the Group further improved the maturity structure of its financial liabilities (by 6.0 percentage points) in favour of long-term liabilities. Regardless of the tight situation in the financial markets, the Group succeeded in financing its development with long-term liabilities, which brings some additional security and long-term stability. Detailed information concerning long-term financial liabilities is provided in the chapters headed "Analysis of operations in 2010" on page 51 and "Financial management" on page 64. No special collateral was granted for the Group's financial liabilities linked to variable interest rates (with the exception of partially offsetting changes in the variable interest rate on investments in the bonds of commercial banks). The main reason for this is due to the relatively low share of borrowings in total liabilities in previous years, and the historic low levels in 2010. Despite this, the parent company, whose financial liabilities also include all financial liabilities linked to a variable interest rate, will introduce interest hedging instruments in the current financial year. The impact of potential changes in variable interest rates on future income is described in Table B.

Table B: Sensitivity analysis of financial liabilities with regard to changes in variable interest rates

Sensitivity analysis for 2010				
Balance of liabilities linked to a variable interest rate	**31. 12. 2010**	**Potential increase in interest rates by 15%**	**Potential increase in interest rates by 50%**	**Potential increase in interest rates by 100%**
	Amount of liabilities €	Amount €	Amount €	Amount €
1M EURIBOR	1,000,000	1,173	3,910	7,820
3M EURIBOR	141,029,000	212,813	709,376	1,418,752
6M EURIBOR	82,850,000	152,485	508,285	1,016,570
Total effect	**224,879,000**	**366,471**	**1,221,571**	**2,443,141**

Sensitivity analysis for year 2009				
Balance of liabilities linked to a variable interest rate	**31. 12. 2009**	**Potential increase in interest rates by 15%**	**Potential increase in interest rates by 50%**	**Potential increase in interest rates by 100%**
	Amount of liabilities €	Amount €	Amount €	Amount €
1M EURIBOR	8,000,000	5,436	18,120	36,240
3M EURIBOR	121,960,000	128,058	426,860	853,720
6M EURIBOR	84,600,000	126,139	420,462	840,924
Total effect	**214,560,000**	**259,633**	**865,442**	**1,730,884**

The analysis of financial liabilities' sensitivity to changes in variable interest rates is based on the assumption of potential growth in interest rates of 15%, 50% and 100% (no further fall in interest rates is expected due to current market conditions). If variable interest rates were to increase by 15% in 2011, the Group would incur a negative effect on interest expenses in the amount of €366,471 (taking into account the level of financial liabilities as at 31 December 2010). If variable interest rates rose by 50% or 100%, the negative effect of the increase in variable interest rates would result in an increase in interest expense by €1,221,571 or €2,443,141 respectively.

Regardless of the sensitivity analysis, the Group assesses that no significant rise in variable interest rates will occur in 2011 and expects to significantly decrease the risk of changes in variable interest rates in 2011 by means of the strategic timing of long-term interest risk hedges.

Management of liquidity risk

The Luka Koper Group manages liquidity risk through the regular planning of cash flows with different maturities. By carefully planning all liabilities, the Group ensures consistent compliance with the agreed deadlines. Our preventive measures of regular monitoring and responding to delayed payments of receivables ensure the effective management of receivable collection. Additional measures for preventing delays in receivable collection include charging penalty interest in accordance with our uniform policy of receivable management. In 2011, the parent company intends to continue its process of converting short-term financial liabilities to long-term liabilities, which will additionally reduce its exposure to liquidity risk.

The Luka Koper Group estimates that the Group's exposure to liquidity risk is low, and due to the risk management mechanisms in place, there is a low risk of losses being incurred.

Maturity of financial liabilities

In thousand EUR	**Past due €M**	**Up to 3 months €M**	**3- 12 months €M**	**1 to 5 years €M**	**Over 5 years €M**	**Total €M**
2010						
Borrowings		5,945	61,534	105,142	53,535	226,156
Interest		1,573	5,213	14,305	7,712	28,803
Other financial liabilities	113					113
Supplier payables		11,148				11,148
2009						
Borrowings		3,295	67,252	132,279	31,600	234,426
Interest		1,883	5,651	15,279	8,880	31,693
Other financial liabilities	113					113
Supplier payables		23,395				23,395

Long-term and short-term liabilities of €226,156 thousand are insured with pledges as described in Note 14 in this Annual Report.

Management of currency risk

Foreign exchange rate fluctuation risk arises from trade receivables denominated in US dollars. In recent years the amount of receivables denominated in US dollars has been decreasing and, through this, the Group's exposure to currency risk. The average monthly invoiced sales in US dollars in 2010 thus totals US$0.52m, with its lowest monthly value reaching US$0.38m, and the highest US$0.63m. As at 31 December 2010, outstanding receivables denominated in US dollars amount to only 2.15% (in 2009: 2.64%) of total outstanding trade receivables. According to the Group's estimates, the share of receivables denominated in US dollars is insignificant and, for this reason, it was decided not to continue hedging the risk item through internal hedging methods.

The Luka Koper Group estimates that the Group's exposure to currency risk is low, and due to the risk management mechanisms put in place, there is a low likelihood of sustaining losses.

Management of credit risk

In view of the global recession, the management of counterparty risk, i.e. credit risk, has gained importance. Customer defaults are being passed on to economic entities, akin to a chain reaction, which significantly reduced the assessed probability of inflows and the additional costs of financing the operation. Accelerated debt collection contributes to minimising the negative effects of wide-spread insolvency. The regular settlement of supplier payables requires the additional raising of funds and thus additional financing costs. The specific structure of our customers (the Group predominantly does business with a limited number of major companies such as freight forwarders and agents), has a positive effect in terms of credit risk as it considerably reduces exposure to credit risk and the Group has a relatively limited scope of receivables arising from direct business dealings with service end-users. Another distinctive feature of the Group's business is the use of liens on stored goods, which may be exercised in order to collect debts or receive payment for obligations that are not voluntarily settled by customers. Some receivables have been secured with collateral which is returned to the customers once all obligations have been settled. Investments include loans which are secured with blank bills of exchange and other movable and immovable property. The credit risk management policy, as outlined above, is reflected in a relatively low share of bad debt impairment which reached 0.73% in 2010. This is a result of a comprehensive approach to the management of trade receivables. The Group has devoted considerably more attention to this area and adapted its internal procedures to the insufficient liquidity conditions in the wider economic area. The Group estimates the credit quality of other receivables that have not matured or been impaired to be good.

The Luka Koper Group estimates that the Group's exposure to credit risk is low, and due to the risk management mechanisms put in place, there is a low likelihood of sustaining losses.

Management of the risk of adequate capital structure

The capital structure, expressed as a ratio between equity and all sources of liabilities, has a significant impact on the performance of an economic entity. Equity is the most expensive source of financing; therefore, it is vital for successful companies to identify an optimal capital structure and align their existing capital structure with this. In the last six years, the share of equity in liabilities decreased from 81.82% on the last day of 2005, to 48.7% in 2010. Such a change in the capital structure is the result of increased indebtedness, through which the parent company funded its own investments. The Company has identified a risk of excessive indebtedness. To combat this, the Company will, in line with its long-term policy, endeavour to gradually reduce its share of total liabilities.

The Luka Koper Group estimates that the Group's exposure to adequate capital structure risk is moderate, and, due to the risk management mechanisms in place, there is a moderate likelihood of sustaining losses.

DISCLOSURES RELATING TO THE CASH FLOW STATEMENT

The cash flows from operating activities are presented under the indirect method. Material increases or decreases in individual items that affect the cash flows of the Company are disclosed in the income statement, balance sheet and the statement of changes in equity.

The cash flow statement shows that the Group generated €18,845,894 in cash flows from operating activities and €18,593,009 in cash flows from investing activities (dividends, the disposal of investments, and fixed assets), which were used to cover expenses incurred on increased investment activities, primarily investments in fixed assets and long-term investments totalling €20,859,080. The difference was covered by taking out additional long-term loans. The net cash from financing activities was negative, amounting to -€16,453,328.
The net cash outflow for the period amounted to €680,829.

The Group has compiled its annual cash flow plan as it is faced with uncertainty regarding forecasts. The following was considered in the planning of cash flows for the 2010 financial year:

- The share of credit sales,
- The timing of credit repayment by customers,
- The method of payment of overhead costs,
- Expenses for capital investments, and
- The timing of tax payments.

Based on the above, the Group is drawing up measures to eliminate cash flow imbalances.

DISCLOSURES TO THE STATEMENT OF CHANGES IN EQUITY

Movements to equity

Equity was decreased by the majority owner's net loss of the year in the amount of €2,903,652. The revaluation surplus also decreased by €529,708, on account of the valuation of investments at fair value classified as available for sale.

Movements within equity

Following the resolution of the Management Board, the parent company's loss of €2,431,888 was covered while compiling the annual report from other revenue reserves formed in previous years. One of the subsidiaries formed legal reserves totalling €6,048, and we covered the remaining loss from the Group's retained earnings.

Movements from equity

The minority shareholder interest from 2009 in the amount of €367,181 was reduced in full.

RELATED PARTY TRANSACTIONS

Remuneration by employee group in 2010

Name and Surname	Gross salary (fixed proportion) €	Gross salary (variable portion – bonuses and performance pay) €	Annual leave allowance €	Benefits and other receipts €	Total remuneration €
Management Board					
Gregor Veselko – Chairman	129,055	—	910	7,496	137,461
Tomaž Martin Jamnik – Deputy chairman	115,762	—	910	6,243	122,915
Marko Rems – Member since 1.3.2010	86,831	—	758	3,679	91,269
Matjaž Stare – Worker's director since 18.10.2010	14,540	—	—	348	14,888
Mirko Pavšič – Luka Koper Inpo, d.o.o. – Director	96,287	17,226	910	—	114,423
Darko Grgič – Luka Koper Pristan, d.o.o. – Director	60,360	—	910	—	61,270
Dimitrij Pucer – Adria terminali, d.o.o. – Director	12,435	—	—	2,984	15,419
Total	**515,271**	**17,226**	**4,398**	**20,750**	**557,646**

Members of Supervisory Board	Meeting fees €	Travel and daily allowance €	Total €
Janez Požar – Chairman	8,966	1,695	10,661
Nebojša Topič – Member	6,644	—	6,644
Boris Popovič – Member since 21.10.2010	2,112	—	2,112
Tomaž Može – Member	6,204	—	6,204
Bojan Brank – Member	7,062	1,468	8,530
Jordan Kocjančič – Member	5,588	1,079	6,667
Marko Simoneti – Member	6,644	1,407	8,051
Stojan Čepar – Member	6,862	473	7,334
Mladen Jovičič – Member	6,644	—	6,644
Blanka Vezjak – Member of Supervisory Board's Audit Committee	660	509	1,169
Total	**57,386**	**6,632**	**64,018**

Employee group	Gross salary fixed and variable portion €	Annual leave allowance and jubilee benefits €	Benefits and other receipts €	Total €
Employees with individual employment contracts in the Luka Koper Group	2,676,326	30,088	195,931	**2,902,345**
Employees under enterprise collective agreement	24,514,823	912,793	310,800	**25,738,416**

Loans approved to employees with individual employment agreement

	Total outstanding €		Repayment of principal €	
	2010	**2009**	**2010**	**2009**
LUKA KOPER, d. d.	10,185.16	11,930	1,744.57	4,847

All approved loans to employees with individual employment contract take the form of mortgages. All mortgages bear interest at a 6-percent nominal annual interest rate and are repaid according to an amortization schedule. In accordance with internal regulations, loans are secured with prescribed security instruments, most frequently assignment statements (wage assignments) and blank bills of exchange accompanied with a signed settlement and realisation authorisation. In the case of significant amounts, the mortgage is required to be taken on the property that is the subject of the loan agreement. The reduction in outstandings is the result of regular repayments and employee turnover.

Transactions with the government of the Republic of Slovenia

No significant transactions were undertaken with the government outside the framework of the Concession Agreement. All transactions relating to the Concession Agreement are disclosed in Chapter 11 of the Appendix to the Annual Report of Luka Koper, d. d.

Transactions with associated and jointly-controlled companies

Key financial data – associates

	Avtoservis, d. o. o. €		Golf Istra, d. o. o. €	
	2010	2009	2010	2009
Revenue	3,192,252	5,389,015	206,209	5,882
Expenditure	2,919,136	4,157,285	88,655	147,563
Non-current assets	1,041,012	946,137	881,191	800,411
Current assets	1,273,333	2,704,407	19,357	11,633
Short-term liabilities	209,257	806,585	223,075	75,889
Long-term liabilities	—	—	—	—
Profit/(loss)	223,434	971,331	117,557	–141,680

	TOC, d. o. o. €		Railport Arad, s. r. l. €	
	2010	2009	2010	2009
Revenue	322,159	183,214	242,906	640,855
Expenditure	338,910	399,297	1,220,293	667,328
Non-current assets	928,001	507,159	7,649,058	7,873,416
Current assets	79,423	201,513	810,678	2,136,653
Short-term liabilities	35,480	62,704	45,660	572,155
Long-term liabilities	63,667	—	1,200,000	1,350,000
Profit/(loss)	(14,976)	(212,516)	(772,189)	80,979

Key financial data – jointly controlled companies

	Adriafin, d. o. o. €		Adria-tow, d. o. o. €		Adria transport, d. o. o. €	
	2010	2009	2010	2009	2010	2009
Revenue	178,701	103,115	4,353,134	4,012,936	3,409,499	3,798,208
Expenditure	408,724	139,910	3,143,841	3,062,437	3,232,430	3,628,089
Non-current assets	8,170,902	8,064,103	9,348,991	7,899,031	9,601,474	10,129,917
Current assets	3,808,134	4,041,495	1,104,938	484,134	1,603,066	3,736,154
Short-term liabilities	326,365	254,775	315,125	1,040,108	1,091,738	1,190,615
Long-term liabilities	—	—	2,280,000	—	8,884,619	11,608,201
Profit/(loss)	128,270	14,972	967,635	751,103	157,084	146,152

EVENTS AFTER THE BALANCE SHEET DATE

Luka Koper, d. d., received a call by the Securities Market Agency to express its opinion regarding the facts and circumstances relevant for the decision regarding the possible liability of Luka Koper, d. d., and the other shareholders of the following companies:

- Krka, d. d., Novo mesto,
- Zavarovalnica Triglav, d. d., Ljubljana,
- Petrol, d. d., Ljubljana,
- Telekom Slovenije, d. d.,
- Aerodrom Ljubljana, d. d.,

all of which are considered to operate in unison with Luka Koper, d. d., and to provide a takeover bid for the shares of the indicated companies in accordance with the provisions of the Takeovers Act.

On 10 February 2011, the Management Board of Luka Koper, d. d., received a decision by the Management Board of the Luka Koper Crane Operators' Trade Union (SŽPD) regarding the commencement of strike action planned for 22 February 2011. Prior to the strike, the Management Board of Luka Koper, d. d., and the SŽPD expert committee agreed on strike cancellation. Both parties have agreed to continue negotiations and conclude them within three months.

On 21 February 2011, Luka Koper, d.d. and the following other major shareholders of Intereuropa, d. d.

- Kapitalska družba, d. d.,
- Slovenska odškodninska družba, d. d.,
- Zavarovalnica Triglav, d. d.,
- NLB, d. d.,
- Abanka Vipa, d. d.,

announced a public invitation for offers regarding the purchase of shares of Intereuropa, d.d. The primary announcement for the public invitation for offers was issued on 23 December 2010, and its extension as of 7 February 2011, has remained valid.

In accordance with the Transparency of Financial Relations and Maintenance of Separate Accounts for Different Activities Act, Luka Koper d.d. has obtained consent from the Ministry of Transport regarding the judgments for allocating revenue and expenses, and assets and liabilities.

INDEPENDENT AUDITOR'S REPORT

ERNST & YOUNG

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Luka Koper d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Luka Koper Group, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Luka Koper Group as of December 31, 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited consolidated financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the consolidated financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited consolidated financial statements.

Ljubljana, April 12, 2011

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

Janez Uranič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

Lidija Šinkovec
Certified Auditor

NON-CONSOLIDATED FINANCIAL STATEMENTS OF LUKA KOPER, D.D. FOR THE YEAR 2010

INCOME STATEMENT – audited and non-consolidated

	Notes	2010 €	2009 €
OPERATING REVENUE		**119,309,245**	**108,462,449**
Net sales	1	118,860,424	107,281,669
Other operating revenue	2	448,821	1,180,780
OPERATING COSTS		**(107,181,328)**	**(117,057,139)**
Costs of materials and services	3	(44,186,813)	(41,176,854)
Labour costs	4	(30,057,873)	(30,156,242)
Write-downs	5	(27,037,980)	(34,465,495)
Other operating expenses and provisions	6	(5,898,662)	(11,258,548)
OPERATING PROFIT/(LOSS)		**12,127,917**	**(8,594,690)**
TOTAL FINANCIAL INCOME	**7**	**5,433,118**	**5,116,895**
Finance income from shares and interests		4,980,335	4,483,029
Finance income from loans		276,026	434,995
Finance income from operating receivables		176,757	198,871
TOTAL FINANCE EXPENSES	**8**	**(20,125,398)**	**(62,191,536)**
Impairment and write-offs of investments		(11,069,760)	(52,591,845)
Finance expenses from financial liabilities		(8,951,286)	(8,494,883)
Finance expenses from operating liabilities		(104,352)	(1,104,808)
TOTAL PROFIT/(LOSS)	**9**	**(2,564,363)**	**(65,669,331)**
Income tax	10	—	(282,122)
Deferred tax	11	132,475	6,760,450
NET PROFIT/(LOSS)		**(2,431,888)**	**(59,191,003)**
LOSS PER SHARE: – basic and diluted	**12**	**(0.17)**	**(4.23)**

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

STATEMENT OF COMPREHENSIVE INCOME – audited and non-consolidated

	Notes	1 -12 2010 €	1 - 12 2009 €
Profit/(loss) for the period		**(2,431,888)**	**(59,191,003)**
Other comprehensive income for the period:			
Change in fair value of available-for-sale financial assets	24	(662,135)	7,189,128
Deferred tax	11	132,427	(1,437,825)
Revaluation of avaliable - for - sale financial assets in net amount	24	(529,708)	7,189,128
Change in fair value of financial instruments used for hedging in net amount		—	—
Change in revaluation surplus relating to property, plant and equipment in net amount		—	—
Total other comprehensive income		**(529,708)**	**5,751,303**
Total comprehensive income for the period		**(2,961,596)**	**(53,439,700)**

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

BALANCE SHEET – audited and non-consolidated

	Notes	31. 12. 2010 €	31. 12. 2009 €
ASSETS		**494,944,676**	**521,534,016**
NON-CURRENT ASSETS		**452,202,349**	**496,479,516**
Intangible assets	**13**	**7,299,398**	**7,024,047**
Property, plant and equipment	**14**	**343,843,293**	**352,506,587**
Land and buildings		233,069,731	213,904,856
Manufacturing plant and equipment		84,045,380	94,015,714
Other plant and equipment		138,695	138,696
Property, plant and equipment being acquired		26,589,487	44,447,321
Investment property	**15**	**37,120,101**	**37,449,118**
Non-current investments	**16**	**54,474,523**	**89,988,457**
Non-current investments, excluding loans		52,130,784	87,234,960
Non-current loans		2,343,739	2,753,497
Non-current operating receivables	**17**	**41,559**	**220,307**
Deferred tax assets	**18**	**9,423,475**	**9,291,000**
CURRENT ASSETS		**42,270,577**	**24,365,362**
Assets (disposal groups) held for sale	**19**	**18,211,752**	**1,382,987**
Current investments	**20**	**1,131,029**	**2,564,111**
Current operating receivables	**21**	**22,335,500**	**19,929,684**
Current income tax receivables	**21**	**—**	**—**
Cash and cash equivalents	**22**	**592,296**	**488,580**
DEFERRED COSTS AND ACCRUED REVENUE	**23**	**471,750**	**689,138**
EQUITY AND LIABILITIES		**494,944,676**	**521,534,016**
EQUITY	**24**	**235,376,191**	**238,337,787**
Share capital	**24**	**58,420,965**	**58,420,965**
Capital surplus	**24**	**89,562,703**	**89,562,703**
Revenue reserves	**24**	**76,877,636**	**79,309,524**
Revaluation surplus	**24**	**10,514,887**	**11,044,595**
Retained earnings	**24**	**—**	**—**
Net profit/(loss) for the year		**—**	**—**
PROVISIONS AND ACCRUED COSTS AND DEFERRED REVENUE	**25**	**5,358,127**	**6,032,940**
NON-CURRENT LIABILITES	**26**	**161,075,952**	**47,874,671**
Non-current financial liabilities	**26**	**158,376,144**	**45,032,490**
Non-current operating liabilities	**26**	**71,086**	**81,032**
Deferred tax liabilities	**26**	**2,628,722**	**2,761,149**
CURRENT LIABILITIES	**27**	**92,402,544**	**228,104,650**
Current financial liabilities	**27**	**77,693,895**	**199,625,466**
Current operating liabilities	**27**	**14,708,649**	**28,479,184**
ACCRUED COSTS AND DEFERRED REVENUE	**27**	**731,862**	**1,183,967**

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

CASH FLOW STATEMENT – audited and non-consolidated

		2010 €	2009 €
A	**Cash flows from operating activities**		
a)	**Net Profit/(loss)**	**(2,564,363)**	**65,951,451**
	Profit/(loss) before tax	(2,564,363)	(65,669,332)
	Income tax and other taxes not included in operating expenses	—	(282,122)
b)	**Adjustments for**	**39,853,100**	**93,468,743**
	Depreciation and amortization, and provisions (+)	25,110,887	24,021,804
	Revaluation operating revenue associated with investing and financing (-)	(78,463)	(52,001)
	Revaluation operating expenses associated with investing and financing (+)	55,990	13,330,236
	Finance income less finance income from operating receivables (-)	(5,256,361)	(4,918,025)
	Finance expense less finance expense from operating liabilities (+)	20,021,046	61,086,729
c)	**Changes in net operating assets in balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities**	**(18,826,107)**	**8,875,116**
	Opening less closing operating receivables	(4,146,196)	5,015,876
	Opening less closing deferred costs and accrued revenue	217,387	1,954,879
	Opening less closing assets (of disposal groups) held for sale	(30,764)	(1,256,503)
	Closing less opening operating liabilities	(13,739,618)	465,629
	Closing less opening accrued costs and deferred revenue, and provisions	(1,126,917)	(191,311)
d)	**Net cash from operating activities (a+b+c)**	**18,462,630**	**33,505,862**
B	**Cash flows from investing activities**		
a)	**Receipts from investing activities**	**19,191,416**	**62,587,154**
	Interest and shares of profits from investing activities	5,165,853	4,918,025
	Receipts from disposal of property, plant and equipment	2,457,339	29,876,998
	Receipts from disposal of investment property	1,079	—
	Receipts from disposal of non-current investments	9,324,532	7,988,969
	Receipts from disposal of current investments	2,242,613	19,803,163
b)	**Payments for investing activities**	**(20,011,127)**	**(130,280,239)**
	Payments to acquire intangible assets	(533,397)	(1,433,631)
	Payments to acquire property, plant and equipment	(17,982,309)	(102,006,911)
	Payments to acquire investment property	(314,167)	(5,009,410)
	Payments to acquire non-current investments	(952,174)	(6,799,877)
	Payments to acquire current investments	(229,080)	(15,030,410)
c)	**Net cash from investing activities (a + b)**	**(819,711)**	**(67,693,082)**

C	**Cash flows from financing activities**		
a)	**Receipts from financing activities**	**158,358,137**	**295,177,588**
	Proceeds from increase in non-current financial liabilities	78,550,000	84,958,900
	Proceeds from increase in current financial liabilities	79,808,137	210,218,688
b)	**Payments for financing activities**	**(175,897,341)**	**(268,047,878)**
	Interest paid on financing activities	(8,951,286)	(8,494,883)
	Cash repayment of non-current financial liabilities	(40,437,007)	(2,328,217)
	Cash repayment of current financial liabilities	(126,508,645)	(257,173,293)
	Dividends and other share of profits paid	(403)	(51,485)
c)	**Net cash from financing activities (a + b)**	**(17,539,203)**	**27,129,710**
D	**Closing cash balance**	**592,296**	**488,580**
	Net cash for the period (sum total of net cash A.c, B.c and C.c)	103,716	(7,057,510)
	Opening cash balance	488,580	7,546,089

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

STATEMENT OF CHANGES IN EQUITY – audited and non-consolidated

	Called-up capital €	Capital surplus €	Legal reserves €	Other revenue reserves €	Retained earnings €	Net profit/ (loss) for the year €	Revaluation surplus €	Total €
As at 1 January 2009	**58,420,965**	**89,562,703**	**18,765,115**	**100,333,556**	**12,534,194**	**6,867,662**	**5,293,293**	**291,777,488**
Net profit/(loss) for the year						(59,191,003)		(59,191,003)
Other comprehensive income for the year							5,751,302	5,751,302
Comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**(59,191,003)**	**5,751,302**	**(53,439,701)**
Release of other revenue reserves based on a decision of the Management Board				(59,191,003)		59,191,003		—
Transfer to other revenue reserves based on a decision of the General meeting of the shareholders				19,401,856	(12,534,194)	(6,867,662)		—
As at 31 December 2009	**58,420,965**	**89,562,703**	**18,765,115**	**60,544,409**	**—**	**—**	**11,044,595**	**238,337,787**
As at 1 January 2010	**58,420,965**	**89,562,703**	**18,765,115**	**60,544,409**	**—**	**—**	**11,044,595**	**238,337,787**
Net profit/(loss) for the year						(2,431,888)		(2,431,888)
Other comprehensive income for the year							(529,708)	(529,708)
Comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**(2,431,888)**	**(529,708)**	**(2,961,596)**
Release of other revenue reserves based on a decision of the Management Board				(2,431,888)		2,431,888		—
As at 31 December 2010	**58,420,965**	**89,562,703**	**18,765,115**	**58,112,521**	**—**	**—**	**10,514,887**	**235,376,191**

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

NOTES TO THE FINANCIAL STATEMENTS

Luka Koper, d.d., established in the Republic of Slovenia, is the controlling entity of the Luka Koper Group.

The financial statements of the Company are prepared for the year ended 31 December 2010.

A list of and information regarding the entities in which Luka Koper, d.d. holds a minimum of a 20% interest is disclosed in Chapter 6 of the Annual Report of the Luka Koper Group: Composition of the Luka Koper Group.

Statement of compliance

The financial statements are compiled in accordance with the Companies Act and International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU.

As at the balance sheet date, due to the endorsement process of the EU, there is no difference in the policies applied by Luka Koper d.d. between the International Financial Reporting Standards and IFRS adopted by the EU.

The Management Board of Luka Koper, d.d. approved these financial statements on 12 April 2011.

Basis of preparation

The functional currency of the consolidated financial statements is the euro (€).

Fair value

Available-for-sale financial assets are carried at fair value with all other financial statement items presented at the cost or amortized amount.

Accounting policies used

The accounting policies used are consistent with those applied in previous years, except for the adoption of new standards and interpretations, as set out below.
The adoption of these standards and interpretations did not have any significant effect on the financial position or performance of the Company.

Amendment to IFRS 2 – *Cash-Settled Share-Based Payment Transactions in the Group*
Amendments to IFRS 2 comprise three basic amendments: a revised definition of share-based transactions and agreements, the scope of IFRS2, and additional clarification as to how to account for cash-settled share-based payment transactions in the Group. IFRIC 8 and 11 are replaced by the amendment.

IFRS 3R - *Business Combinations* and **IAS 27R** – *Consolidated and Separate Financial Statements*
The revised standards were issued in January 2008 and become effective for the financial years commencing on 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact on the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively, and will affect future acquisitions and transactions with minority interests.

IAS 39 - *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
These amendments to IAS 39 were issued in August 2008 and are effective for the financial years commencing on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

We have assessed the application of **IFRIC 12** – Service Concessions Agreements and concluded that, in terms of the concession agreement and its substance (as detailed below), the interpretation does not apply to the Company.

In September 2008, Luka Koper d.d. concluded a concession agreement with the Republic of Slovenia. The agreement covers a multitude of relationship between Luka Koper d.d. and the Republic of Slovenia, such as land rental, right of superficies, water rights and a concession for the performance of commercial public services. The Company pays an annual concession fee equal to 3.5% of the annual operating income. For the performance of the commercial public services of maintaining port infrastructure, the Company is entitled to the income from port dues which comprise the Company's dedicated revenue for routine maintenance as well as major maintenance and the repair of port infrastructure. Port dues account for 5% of the Company's operating income and, in terms of substance, they are an integral part of the Company's operating income. The amount of port dues is set by Luka Koper d.d. in agreement with the government. The remaining 95% of the operating revenue is generated through the provision of transhipment and warehousing services, for which the prices are determined by the laws of the market. The development and overhaul of port infrastructure is carried out by the Company in its own name and for its own account. After the concession agreement expires, the concessionaire is entitled to a refund of the non-amortized portion of the investments. During the term of the agreement, the concessionaire has no say on the capacity utilisation. In light of the concession agreement specifics provided above, we believe that the provisions of IFRIC 12 – Concession Agreements do not apply to our agreement. In the Company's books of accounts, the entire port infrastructure is reported as comprising property, plant and equipment, allocated to the relevant profit centre to ensure the separate monitoring of the activity.

IFRIC 17 - *Distribution of Non-Cash Assets to Owners*
IFRIC 17 became effective for the annual periods commencing 1 July 2009. The interpretation provides guidance on how to account for the non-cash distribution of assets to owners. The interpretation clarifies when an entity should recognise the liability, how it should be measured, and how to recognise and measure the related assets, as well as when such assets and liabilities should be derecognised in the books of accounts.

IFRIC 18 - *Transfers of Assets from Customers*
IFRIC 18 applies to transfers of assets from customers on or after 1 July 2009. The interpretation provides guidance as to how to account for property, plant and equipment transferred from customers, or cash received for the acquisition or construction of certain assets. This guidance applies only to assets used by an entity to connect the customer to a network, or to provide the customer with ongoing access to a supply of goods, services or, in some cases, to do both. The entity must identify the service or services rendered and allocate the received payment (the fair value of assets) to each identifiable service. Revenue should be recognised on the delivery or performance of each individual service by the entity.

Improvements/amendments to IFRS
In May 2008 the Board issued its first omnibus of **amendments to its standards**, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of these amendments did impact on the changes in the Company's accounting policies; however, it did not have any impact on its financial position or performance.

IAS 1 – *Presentation of financial statements.*
Assets and liabilities held for trading under IAS 39 Financial Instruments: Recognition and measurement, are not automatically classified as current in the balance sheet. The Company has amended its accounting policy accordingly and examined whether the management's expectations over the period in which assets and liabilities are capitalised differ from the classification of the financial instrument. As a result of the amended standards, the Company did not reclassify its financial instruments from current to non-current assets or vice-versa.

IAS 16 – *Property, plant and equipment*
Replace the term "net selling price" with "fair value less costs to sell". Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

IAS 23 – *Borrowing costs*
The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method in accordance with IAS 39. The Company has amended its accounting policy accordingly.

IAS 38 – *Intangible assets.*
The reference has been removed to there being rarely, if ever, persuasive evidence to support an amortization method of intangible assets other than a straight-line method. The Company has reassessed the useful lives of intangible assets and found that the use of the straight-line method of amortization is appropriate.

The following **amendments** had no impact on the accounting policies of the Company, its financial position or operations:

IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations
IFRS 7 – Financial Instruments: Disclosures
IAS 7 – Cash flow statement
IAS 8 – Accounting Policies, Change in Accounting Estimates and Errors
IAS 10 – Events after the Reporting period
IAS 18 – Revenues

IAS 19 – Employee Benefits
IAS 20 – Accounting for Government Grants and Disclosures of Government Assistance
IAS 27 – Consolidated and Separate Financial Statements
IAS 28 – Investments in Associates
IAS 29 – Financial Reporting in Hyperinflationary Economies
IAS 31 – Interests in Joint Ventures
IAS 32 – Financial Instruments: Presentation
IAS 34 – Interim Financial Reporting
IAS 36 – Impairment of Assets
IAS 39 – Financial Instruments: Recognition and Measurement
IAS 40 – Investment Property
IAS 41 – Agriculture – Additional biologic transformation

In April 2009 the Board issued **amendments to its standards**, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of these improvements did not have any impact on the financial position of the Company:

IFRS 2 – Share-Based Payments – specification when to apply IFRS 2 and IFRS 3
IFRS 5 – Non-current Assets Held for Sale – Disclosure
IFRS 8 – Operating Segments – Disclosure of Segments' assets
IAS 1 – Presentation of Financial Statements – current/non-current liabilities for swap instruments
IAS 7 – Statement of Cash Flows – classifying expenditure for unrecognised assets
IAS 17 – Leases – classifying land and buildings
IAS 18 – Revenue – designation whether an entity acts as a principal or an agent
IAS 36 – Impairment of Assets – the maximum unit to which goodwill may be attributed
IAS 38 – Intangible Assets – amendments as a result of new IFRS 3 Standard and amendments in relation to determining fair value
IAS 39 – Financial Instruments – assessment of liquidating damages for prepayment of a credit as a derivative, cash flow hedges

IFRIC 9 – Reassessment of Embedded Derivatives – impact of IFRS 3 and IFRIC 9
IFRIC 16 – Hedges of a Net Investment in a Foreign Operation – amendment of restriction to an entity allowed to have a hedge

Foreign currency transactions
Transactions in foreign currency are converted into euro (€) at the reference exchange rate of the European Central Bank prevailing at the transaction date. Monetary assets and liabilities in foreign currency are converted at the ECB reference exchange rate at the balance sheet date. All differences resulting from foreign currency translation are recognised in the income statement.

Profit from operations
Profit from operations is defined as the result before income tax and finance items. Finance items comprise interest revenue on cash balances and the bank, deposits, interest bearing available-for-sale investments, interest expense on borrowings, gains and losses on derivatives and on the sale of available-for-sale financial instruments and foreign exchange gains and losses on all monetary assets and liabilities denominated in foreign currency.

Significant accounting estimates and judgements
In the preparation of financial statements under International Financial Reporting Standards, management makes certain estimates, judgements and assumptions which impact on the accounting policies used and the carrying value of assets and liabilities, revenues and expenses. These estimates are based on experience from previous periods as well as expectations in the accounting period. Actual results differ from those estimates and, for that reason, they are constantly revised and adjusted accordingly.

Deferred tax

Based on our estimates that, in future, sufficient taxable profit will be available, deferred tax was provided on account of the following items:

- Provisions for jubilee benefits and termination benefits upon retirement
- Provisions for claims and damages
- Impairment of investments

Deferred tax assets recognised on account of provisions for jubilee benefits, termination benefits, claims, and damages are reduced by the relevant amount of provisions utilised or increased by the amounts of newly formed provisions.

Deferred tax assets were recognised in the relevant amount of impairment loss on investments, as impairment losses are not recognised as tax expenditure until the investments' derecognition. Deferred tax assets will be utilised on the derecognition of these investments.

The tax rate used in the calculation of deferred tax on temporary differences is 20%. Pursuant to the criteria stated in IAS 12 (36) and our business plan for the forthcoming period, we assess that, in the forthcoming year, taxable profit will be available against which unused tax losses may be utilised.

Deferred tax liabilities were recorded for temporary differences arising on the revaluation of available-for-sale financial assets (at fair value through profit/(loss)).

At the balance sheet date, the amount of deferred tax assets and liabilities is reassessed. If there is an insufficient amount of available taxable profits, the amount of deferred tax assets is reduced accordingly.

Provisions

The Management approves the substance and amount of provisions on the basis of the following:

- An actuarial calculation of provisions for jubilee benefits and termination benefits,
- An assessment of the amount of potential claims prepared by the legal services or another external lawyer considering existing lawsuits and claims.

The amount of provisions is the best estimate of future expenditure.

Summary of significant accounting policies and disclosures

Individual categories are disclosed under the International Financial Reporting Standards. All significant items and issues have been disclosed. Accounting policies used as well as their nature and degree of significance are identified in the Company's internal rules. For all significant amounts reported in the financial statements, we have also disclosed comparable information for the previous period and included numerical and descriptive information. Comparative information has been adjusted to be consistent with the presentation in the current financial year.

The accounting policies detailed below were consistently applied in all the periods presented in the financial statements.

Property, plant and equipment

The items of property, plant and equipment are carried at cost. Under the cost model, an item of property, plant and equipment is carried at its cost, less accumulated depreciation and accumulated impairment losses. The manner and methods used in the valuation of assets due to impairment are described in the section "impairment of property, plant and equipment". The cost of an item of property, plant and equipment is equal to its monetary value on the day the asset is recognised.

If the cost of an item of property, plant and equipment is significant, it can be divided into its constituent parts if they have different useful lives. Each part is accounted for separately. Land is accounted for separately and does not depreciate.

Borrowing costs

Borrowing costs that may be directly attributed to the acquisition, construction or production of a qualifying asset increase its cost. Borrowing costs are capitalised as a portion of costs of a qualifying asset when expenditures for the asset are incurred, when borrowing costs are incurred, and when activities necessary to make the asset ready for its intended use or disposal are commenced.

Finance lease

At the inception of a finance lease, it is recognised in the balance sheet as an asset and liability in the amounts equal to the lower of the fair value of the leased asset or the present value of the minimum lease payments, whereby both values are determined upon the outset of the lease. In deriving the present value of the minimum lease payments, the discount rate is the related interest rate, or if this cannot be determined, the lease's incremental borrowing rate which the lessee would incur, is used. All direct costs to the lessee are added to the amount recognised as an asset.
In 2010, the Company did not acquire any items of property, plant and equipment under the finance lease.

Subsequent expenditure

Any subsequent expenditure incurred for the replacement of an individual part of an item of property, plant and equipment increases its cost, while other subsequent expenditure increases the cost of the asset only if it is likely that the economic benefits of the asset will increase over its originally estimated value. All other expenditure is recognised as expense when incurred.

Depreciation

A depreciation charge is recognised in an individual period in the income statement. An asset is subject to depreciation when it is made available for use. The items of property, plant and equipment depreciate under the straight-line depreciation method over the estimated useful life of individual assets. The depreciation method used is reassessed at the end of each financial year. As a rule, the residual value of an asset is considered only for significant items of property, plant and equipment, as is their cost of disposal. Land and works of art do not depreciate.

Assets	**2010 %**	**2009 %**
Buildings	1.3–6	1.3–6
Transport and transhipment equipment	5.6–25	5.6–25
Computer hardware	20–25	20–25
Other equipment	10–25	10–25

Derecognition

The carrying amount of an individual item of property, plant and equipment is derecognised upon its disposal or when no future economic benefits are expected from the asset's use or disposal. Any profit/(loss) resulting from derecognition of individual item of property, plant and equipment is recognised in the income statement.

Intangible assets

Initially, intangible assets are recognised at cost. Subsequent to initial recognition, they are recognised at their cost, reduced by accumulated amortization and accumulated impairment losses.

Amortization

Amortization begins when an asset is ready for its use, i.e. when the asset is at the location and in the condition necessary for it to operate as the management intended.

The net carrying amount of an item of intangible assets is reduced using the straight-line amortization method over the period of its useful life.

The period and method of amortization of an intangible asset with a finite useful life are reassessed at least at the end of each financial year. When the expected useful life of an intangible asset differs from previous assessments, its amortization rate is adjusted accordingly.

The useful life of an item of intangible assets that arises from contractual or other legal rights does not exceed the period of these contractual rights or legal rights; however, it may be shorter, depending on the period during which the asset is expected to be used. The estimated useful life of other intangible assets is 10 years.

Investment property

Investment properties are held to bring in rent and/or to appreciate in value. Investment property is measured under the cost model. Depreciation is accounted for under the straight-line depreciation method over the estimated useful life of an individual asset. Land does not depreciate. Facilities under lease and those owned by the Company are divided into individual parts with different useful lives of between 16 and 76 years.

Investments in related parties

Investments in subsidiaries, associates, entities under joint control and other entities are measured at cost.

Financial instruments

Financial instruments are classified into the following categories:

1. Financial instruments at fair value through profit/(loss)
2. Held to maturity investments
3. Loans and receivables
4. Available-for-sale financial assets

Financial instruments at fair value through Profit/(loss)
The first category comprises financial instruments recognised on trading date, which are measured at fair value through profit/(loss), and which are intended for active trading. For the first time, due to its nature, a single financial instrument was classified into this Group in 2009.

Held-to-maturity investments
The second category comprises investments which are, on their recognition, designated as held to maturity. They are recognised on the settlement date and measured at the amortized cost using the effective interest rate method. Thus far, none of the Company's investments have been classified into this category.

Loans and receivables
The third category comprises all loans and borrowings as well as receivables. They are recognised on the settlement date and measured at the amortized cost using the effective interest rate method.

Trade receivables
In our books of accounts, long-term and short-term receivables are carried separately, as are trade receivables and receivables due from the State and employees. Trade receivables include interest receivables. Long-term and short-term trade receivables are initially recognised at the amounts agreed in the contracts or recorded in the relevant accounting documents. On the last day of the financial year, trade receivables expressed in foreign currency are converted into the local currency at the ECB reference rate.

The amounts of individual trade receivables are determined at the end of the accounting period, taking evidence regarding doubtful settlement into account. Bad debt allowance is recognised for receivables which are over 12 months past due and for doubtful or disputed receivables.

Loans
On initial recognition, loans are carried at their amortized cost using the effective interest rate method. In terms of their maturity, loans are classified on the settlement date into long-term or short-term assets. From a credit risk management perspective, the maturity of individual loans as well as the method of settlement and collateral is determined taking into consideration the credit rating of the borrower, (e.g. bills of exchange, pledge of securities and other movable or immovable property, the potential for the unilateral netting of mutual liabilities, and similar collateral). In the event that the borrower fails to meet his contractual liabilities, collateral is liquidated or, if legal proceedings have been instituted, the investment is impaired.

Borrowings
On initial recognition, borrowings are carried at their amortized cost using the effective interest rate method. The majority of borrowings represent bank loans with the repayment of principal taking place when the loan contract matures. In terms of their maturity, borrowings are classified into long-term and short-term financial liabilities. On the last day of the year, all financial liabilities in respect of which debt covenants were not met – primarily due to impairment – were transferred to short-term financial liabilities. Interest-bearing borrowings are insured with bills of exchange and certain loan covenants.

Available-for-sale financial assets
Available-for-sale financial assets comprise all of the investments in equity securities. On initial recognition, they are measured at fair value, increased by the cost of the transaction relating to the acquisition of individual financial assets. Fair value is considered market value based on the closing market value of securities or the published daily value of a unit of a mutual fund's assets. Fair value changes are recognised directly in the statement of comprehensive income. The declining volume of securities is accounted for in books of accounts, using the average prices method. When available-for-sale financial assets are derecognised, the accumulated gains or losses are transferred to the income statement. Additions and disposals of available-for sale financial assets are recognised on the trading date.
All other financial assets for which there is no active market and, consequently, a market price, are valued at cost.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits, deposits redeemable at notice or deposits with maturities of up to three months. The balance of cash in foreign currency is translated into the local currency at the ECB reference rate on the last day of the financial year.

Derivative financial instruments

The Company does not issue derivative financial instruments for trading purposes. Should a decision be taken to hedge against financial risks, the Company will select the relevant derivative financial instruments and recognise them jointly with the hedged item as a hedge relationship.

Equity

Share capital

The share capital of Luka Koper, d.d. is represented by 14,000,000 ordinary, freely transferable nominal non par value shares.

Dividends

Dividends are recognised in the financial statements when the Shareholders Meeting's decision on the payment of dividends has been approved.

Redemption of treasury shares

In 2010, the Company did not trade in treasury shares.

Authorised capital

As at 31 December 2010, the Company had no authorised capital.

Provisions

Provisions for lawsuits

The Company made provisions for claims and damages related to alleged business offences. The amount of the provisions determined is based on the amount of compensation claims, or an estimate if the amount of the claim is not yet known. The amount of provisions made is verified on a regular basis.

Provisions for termination and jubilee benefits

In accordance with the statutory requirements and the collective agreement, the Company is obligated to pay jubilee benefits and termination benefits upon retirement. These payments are measured using the simplified method of accounting, which requires that an actuarial liability is assessed on the basis of the expected salary increase from the valuation date until the anticipated retirement of an employee. This means that benefits are accrued in proportion to the work performed. The assessed liability is recognised as the present value of expected future expenditure. Anticipated salary increases and employee turnover are also considered part of the measurement.

Actuarial gains or losses of the current year, based on actuarial calculations, are recognised in the income statement.

Provisions for anticipated costs of maintenance of the port infrastructure

In accordance with the concession agreement concluded with the government of the Republic of Slovenia, the Company creates provisions for the ordinary maintenance of port infrastructure up to an amount equal to the surplus of the income from the port dues over the costs.

Operating liabilities

Long-term operating liabilities include collateral received for rented business premises. Liabilities to suppliers, the State and employees are presented separately. Operating liabilities are inclusive of interest and dividends payable. Operating liabilities denominated in foreign currency are converted into the local currency at the ECB reference rate on the balance sheet date.

Income tax

Income tax is provided for in accordance with the Corporate Income Tax Act and, as we have the status of an Economic Zone user, also in accordance with the Economic Zones Act. This allows the Company to claim tax relief for investments in fixed assets located within the economic zone. Since in 2010 the Company did not receive a positive decision from the Tax Authorities, which provides the basis for claiming tax relief, the Company could not claim any tax relief. The basis for the income tax calculation is the gross amount of profit increased by the amount of non-deductible expenditure and reduced by the amount of statutory tax relief. In 2010, income tax liability was calculated at a rate of 20%.

Deferred tax

With a view to reporting the relevant profit/(loss) for the period, the Company also accounted for deferred tax. Deferred tax includes deferred tax assets and deferred tax liabilities. Deferred tax was provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The differences were identified as permanent or temporary, whereas the latter were further divided into "taxable" and "deductible". Taxable deductible differences increase the taxable amounts and deferred tax liabilities, whereas deductible temporary differences reduce taxable amounts and deferred tax assets.

Earnings per share

The basic and diluted earnings per share were calculated by dividing the net profit for the financial year 2010 by the weighted average number of issued ordinary shares.

Revenue

Revenue from services rendered
Operating revenue is recognised when it can be reasonably expected that it will result in receipts, unless these were already realised when the revenue was generated, and their amount can be reliably measured.

Revenue from services rendered is recognised using the stage of completion method on the balance sheet date. Under this method, revenue is recognised in the accounting period in which the services are rendered. The amount of each significant category of revenue recognised in the accounting period is disclosed, as well as revenue generated in the domestic and foreign markets. Revenue from the domestic market was achieved in Slovenia, whereas revenue from foreign markets was generated in the EU and third countries.

Rental income
Rental income from investment property comprises revenue generated from construction facilities and land that are leased out under operating leases. Rental income is recognised within operating revenue.

Other revenue
Other revenue includes grants, premiums and revaluation revenue from the disposal of fixed assets and from the reversal of the net amount of provisions.

Finance income and expenses
Finance income comprises interest income from loans, income from dividends, income from the disposal of available-for-sale financial assets, and foreign exchange gains. Interest income is recognised when accrued using the effective interest rate method. Income from dividends is recognised in the income statement when a shareholder's right to payment is established.

Finance expenses comprise interest costs on borrowings, foreign exchange losses and impairment losses on financial assets recognised through the income statement. Borrowing costs are recognised in the income statement using the effective interest rate method.

Expenses – costs

Costs are recognised as expenses in the accounting period during which they are incurred. They are classified according to their nature. Costs are carried and disclosed by natural types using the Company's three-digit chart of accounts. Expenses are recognised when a decrease in economic benefits in the accounting period results in a decrease of assets or an increase in liabilities and this decrease can be reliably measured.

Impairment of property, plant and equipment

If there is any indication that an asset may be impaired, the asset's recoverable amount is assessed. When the asset's recoverable amount cannot be assessed, the Company determines the recoverable amount of the cash generating unit to which the asset belongs. Impairment loss is recognised in the income statement. Impairment losses should be reversed if the estimates used to determine the asset's recoverable amount have changed. Impairment loss is reversed to the extent that the increased carrying amount of the asset does not exceed the carrying amount that would have been determined net of depreciation had no impairment loss been recognised in respect of the asset. The reversal of the impairment loss is recognised as revenue in the income statement.

Impairment of intangible assets

On the reporting date, intangible assets are tested for impairment.

In the event that the recoverable amount of an asset is less than its carrying amount, the asset's carrying amount is reduced to its recoverable amount. The decrease is disclosed as an impairment loss and recorded as a revaluation operating expense.

Impairment of financial assets

On each reporting date, financial assets are tested for impairment using the criteria set out in the accounting manual in order to determine whether there is any objective evidence of impairment. If such objective evidence exists, the Company calculates the amount of impairment loss.
When the Company determines that investments carried at amortized cost should be impaired, the amount of the loss is measured as the difference between the investment's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. The amount of impairment loss is recognised in the income statement. When the reasons for the impairment of an investment cease to exist, the reversal of the impairment of the investment carried at amortized cost is recognised in the income statement.

When the Company determines that investments in subsidiaries, associates, jointly-controlled entities and other companies carried at cost should be impaired, the impairment loss is recognised as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets. The impairment loss is recognised in the income statement as a revaluation financial expense.

Impairment loss on available-for sale financial assets is recognised in the income statement as the difference between the investment's carrying amount and the market or fair value on the balance sheet date. Available-for-sale financial assets are impaired when the fair value falls more than 40% below their cost on the balance sheet date. The amount of impairment loss is the difference between the cost and fair value of the investment.

Comprehensive income

In the statement of comprehensive income, the Company reports revenue and expenses (inclusive of any adjustments due to reclassification) that are not included in the income statement, in accordance with other IFRS.

Cash flow statement

The cash flow statement is presented using an indirect method, on the basis of the balance sheet items as at 31 December 2010 and 31 December 2009, as well as the items in the income statement for the 2010 financial year, inclusive of any necessary adjustments to the cash flows.

Statement of changes in equity

The statement of changes in equity is a presentation of the movements in individual equity elements during the financial year under review (total revenues and expenses as well as transactions with owners when they operate as owners), inclusive of the net profit distribution. The statement of comprehensive income is also included, which increases the net profit of the accounting period by the total revenue directly recognised in the equity.

New standards and interpretations that are not yet effective

Early application of IFRS and IFRICs not yet effective

Luka Koper d.d. has not adopted any standards or interpretations that are not yet effective and which will come into force in the future.

The following new and amended interpretations will be adopted in future periods, as required by International Financial Reporting Standards:

Amendment to IFRS 1 - Limited Exemption from Comparative IFRS 7 Disclosures for first time adopters.

IAS 24 – *Related Party Disclosures*
Applicable for the periods commencing after 1 January 2011.
Amendments to IAS 24 define in more detail and simplify the definition of a related party. Furthermore the amended standard reduces the scope of disclosures of transactions of a government-owned entity with the government and other government-owned entities.

IAS 32 – *Financial Instruments: Presentation, Classification of the Option to Purchase Shares Denominated in a Foreign Currency*
Applicable for periods commencing on or after 1 January 2010.
The amended Standard allows an entity issuing puttable financial instruments denominated in foreign currency not to account for these rights as derivatives, but rather to recognise the effects in the income statement. These rights are classified as equity if they fulfil a number of specified criteria.

IFRIC 14 – *Prepayments of a minimum funding requirement (Amendment)*
The amendment to IFRIC 14 is effective for annual periods commencing on or after 1 January 2011 and applied retrospectively. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

IFRIC 19 – *Extinguishing Financial Liabilities with Equity Instruments*
IFRIC 19 is effective for annual periods commencing on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In the event that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in the income statement. The adoption of this interpretation will have no effect on the financial statements of the Luka Koper Group.

The following new and amended standards and interpretations will be adopted in future periods, as required by the International Financial Reporting Standards and if endorsed by the EU:

IFRS 9 – *Financial Instruments*
The Standard replaces IAS 39 and is applicable for periods commencing on 1 January 2013. The first part of the Standard introduces new requirements for classifying and measuring financial assets.

Amendment to IFRS 7 – *Financial instruments* – Disclosures to enhance the transparency of disclosure requirements for the transfer of financial assets.
Issued in October 2010. The amendments will assist users in understanding the implications of the transfer of financial assets and the potential risks that may remain with the transferor.

IAS 34 – *Interim Financial Reporting*
Effective for annual periods commencing on or after 1 January 2011. This improvement provides guidance as to how to apply disclosure principles in IAS 34 and add disclosure requirements.

IAS 12 – *Deferred tax: Recovery of Underlying Assets (Amended)*
The amendment is effective for annual periods commencing on or after 1 January 2012. This amendment concerns the determination of deferred tax on investment property measured at fair value. The aim of this amendment is to include a) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through a sale and b) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

Improvements/amendments issued in May 2010
In May 2010 the IASB issued Improvements to IFRS, and an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods commencing on or after either 1 July 2010 or 1 January 2011

IFRS 3 – Business Combinations
IFRS 7 – Financial Instruments: Disclosures
IAS 1 – Presentation of Financial Statements
IAS 27 – Consolidated and Separate Financial Statements
IFRIC 13 – Customer Loyalty Programmes

Judgements and sources of uncertainty

Risk management

The Company monitors and strives to manage risk at all levels of the business. In the assessment of risk, the Company considers various risk factors and compares their costs with related benefits. Appropriate risk management is ensured by their timely identification and management, and by the relevant guidelines and policies, which are laid down in the overall management system documentation.

The Company's operations are exposed to strategic, operational and financial risks, which are largely dependent on market laws, and which require active monitoring. In addition to strategic and operational risks, the Company also encounters financial risks, of which the most significant ones include the risk of fair value changes, interest rate risk, liquidity risk, currency risk and credit risk, as well as the risk of adequate capital composition. The way in which financial risks are identified and managed is disclosed in Note 29: Financial Risk Management.

ADDITIONAL NOTES TO THE INCOME STATEMENT

Note 1: Net Sales

	2010/€	2009/€
NET SALES	**118,860,424**	**107,281,669**
SALES IN THE DOMESTIC MARKET	**39,841,339**	**35,525,635**
Revenue from the sale of services in the domestic market	37,885,147	33,800,821
Rental income in the domestic market	1,924,892	1,724,163
Revenue from the sale of goods and materials	31,300	651
SALES IN FOREIGN MARKETS	**79,019,085**	**71,756,034**
Revenue from the sale of services in foreign markets	79,008,995	71,747,425
Rental income in foreign markets	10,090	6,316
Revenue from the sale of goods and materials	—	2,294

Luka Koper, d.d. ended the financial year 2010 with revenue from the main line of business amounting to €118,860,424, which represents a year-on-year increase of 11%. The majority of revenue (66%) was generated abroad, with the remaining 34% generated in the domestic market.

Note 2: Other operating revenue

	2010/€	2009/€
OTHER OPERATING REVENUE	**448,821**	**1,180,780**
Revaluation operating revenue	78,499	52,025
Other	370,322	1,128,755

Included in other operating revenue is accrued revenue based on expenditure relating to European projects in the amount of €318,936; these were handed over to certification and it is rightfully expected that these funds will be received.

Note 3: Costs of materials and services

	2010/€	2009/€
COSTS OF MATERIALS	**8,365,291**	**7,395,992**
Cost of auxiliary materials	2,313,287	2,289,785
Cost of power supply	5,560,626	4,585,061
Cost of office supplies and professional literature	114,013	155,009
Other costs of materials	377,365	366,137

	2010/€	2009/€
COSTS OF SERVICES	**35,821,522**	**33,780,862**
Cost of physical services	13,406,743	11,839,849
Cost of transport services	207,423	313,840
Cost of maintenance services	7,206,256	5,496,797
Lease payments	954,486	1,928,628
Reimbursements of work-related costs to employees	270,496	376,190
Costs of payment processing and insurance premiums	365,811	415,627
Cost of professional and personal services	1,117,514	1,326,787
Cost of advertising, trade fairs and hospitality	1,237,050	1,743,116
Cost of services rendered by natural persons	96,375	113,710
Cost of other services	10,959,368	10,226,318

The cost of professional and personal services also include audit fees, as follows: a fee for the audit of the financial statements for 2010 of €29,000 and other non-audit services carried out by auditing firms in the amount of €66,272. In 2010, the costs of other services include two significant items: concession fees of €3,957,324 (in 2009: €3,553,460) and the cost of information technology support totalling €3,152,677 (in 2009: €3,327,689).
The cost of payment processing and insurance premiums includes property insurance costs and personnel insurance in the amount of €325,133. The property insurance includes basic insurance against fire damages for agreed value as new of the assets, for any damages sustained by third parties and certain goods and products belonging to third parties. In accordance with the concession agreement, all port infrastructure relating to public transport, both the one owned by the Company as well as the one on long-term lease, is also insured against any damages.

Note 4: Labour costs

	2010/€	2009/€
LABOUR COSTS	**30,057,873**	**30,156,241**
Salaries	19,668,655	19,191,409
Salary compensation	3,272,566	3,540,062
Cost of supplementary pension insurance	929,304	957,709
Employer's contributions on salaries	3,662,796	3,707,029
Annual leave allowance, reimbursements and other costs	2,524,552	2,760,032

On 31 December 2010, Luka Koper, d.d. had 748 employees, which represents a year-on-year decrease of 3%. The average number of employees for 2010 was 757 compared to 781.5 in 2009. The decrease in labour costs compared to year 2009 was due to retirements, internal reorganisation and the optimisation of the number of employees among organisational units.

Average number of employees by level of education in 2010 and 2009:

Educational level	Average in 2010	Average in 2010
VIII/2	2	1.5
VIII/1	15	16
VII	93	94
VI/2	113	112
VI/1	48	46
V	230	242.5
IV	183	189
III	19	23.5
I–II	54	57
Total	**757**	**781.5**

In 2010, all employees, except for the Members of Management Board, received an additional salary (13th salary) equal to each employee's average salary, due to achievement of the planned added value. Other benefits awarded to employees include the payment of a supplementary pension insurance premium by the employer, which has now funded the pension scheme for the ninth consecutive year.

In 2010, as well as in 2009, the annual leave allowance amounted to €910 per employee.

Loans granted to employees with individual employment agreement:

	Total outstanding €		Repayment of principal €	
	2010	2009	2010	2009
LUKA KOPER, d.d.	10,185	11,930	1,745	4,847

In accordance with the internal rules and its business plan, Luka Koper, d.d. approves mortgages to its employees as a means of resolving their housing problems. The balance of the outstanding amount and repayments made in 2010 and 2009 are presented in the table above.
No loans were granted to Members of the Management and Supervisory Boards.

Note 5: Write-downs

	2010/€	2009/€
Write-downs	**27,037,980**	**34,465,495**
Depreciation of fixed assets	24,472,798	20,556,655
Depreciation of investment property	638,090	578,603
Revaluation operating expenses for property, plant and equipment	55,990	13,330,237
Revaluation operating expenses for current and other non-current assets	1,871,102	—

Depreciation and amortization rates remained unchanged in 2010. Depreciation and amortization charges on intangible assets, property, plant and equipment, and investment property increased in 2010 as a consequence of new purchases and the completion of some major investments.

Included in the revaluation operating expenses for current and other non-current assets is an impairment charge for non-current operating receivables in the amount of €1,470,883, relating to the Project Panonija during 2008–2010.

Note 6: Other operating expenses and provisions

	2010/€	2009/€
Other expenses	**6,150,031**	**8,483,124**
Charges unrelated to labour costs or other costs	5,270,663	7,420,991
Environment protection expenditure	137,486	484,475
Awards and scholarships to students	5,421	5,750
Other costs – penalties, compensation paid and demurrage	736,461	571,908

A significant item of charges represents a charge for the use of land, which amounted to €4,733,206 in 2010 (in 2009: €4,573,286). The Company spent €294,982 (in 2009: €296,000) on grants.

	2010/€	2009/€
Provisions	**(251,369)**	**2,775,425**
Provisions for damages	(191,484)	309,121
Provisions for ordinary maintenance in accordance with the concession agreement	(59,885)	2,466,304

Provisions formation and movements are disclosed in Note 25: Provisions and accrued costs and deferred revenue.

Note 7: Finance income

	2010/€	2009/€
TOTAL FINANCE INCOME	**5,433,118**	**5,116,895**
Finance income from interests	**4,980,335**	**4,483,029**
Finance income from interests in subsidiaries	2,900,088	800,000
Finance income (dividends) from associates	838,438	968,562
Finance income (dividends) from other companies	641,991	1,031,000
Finance income from disposal of securities	599,818	1,683,467
Finance income from loans	**276,026**	**434,995**
Finance income from loans to Group companies	8,574	28,800
Finance income from loans to others	267,452	406,195
Finance income from operating receivables	**176,757**	**198,871**
Finance income from operating receivables due from others	143,279	168,156
Foreign exchange gains	33,478	30,715

In 2010, finance income increased by 6%. Subsidiaries have paid out dividends in the amount of €2,900,088, whereas the dividends received from other companies are lower than in previous year.
Finance income from loans has decreased due to the repayment of principals and lower interest rates.

Note 8: Finance expenses

	2010/€	2009/€
TOTAL FINANCE EXPENSES	**20,125,398**	**62,191,536**
Finance expenses for impairment of investments	**11,069,760**	**52,591,845**
Finance expenses for financial liabilities	**8,951,286**	**8,494,883**
Finance expenses for borrowings from Group companies	320,354	269,798
Finance expenses for borrowings from associates	37,484	34,553
Finance expenses for borrowings from banks	8,593,448	8,190,532
Finance expenses for operating liabilities	**104,352**	**1,104,808**
Finance expenses for payables to suppliers and bills payable	52,193	7,144
Finance expenses for other operating liabilities	52,159	1,097,664
Foreign exchange losses	—	—

Included within finance expenses for the impairment of investments are the following significant items:

- Finance expenses for the impairment of investments in Group companies and associates amounted to €4,387,096 and relate mainly to a 100% impairment of the investment in the following associates: Adriasole, d.o.o., in the amount of €2,807,795, Ecoporto, d.o.o. in the amount of €1,409,154, and Golf Istra, d.o.o. in the amount of €170,148.
  The impairment of Adriasole d.o.o. and Ecoporto d.o.o. was based on a valuation by an independent registered certified business valuer. For the valuation, an adjusted carrying value method was used where the basis was determined from the investor's point of view, based on International Valuation Standards (IVS 2007).
- Finance expenses for the impairment of investments classified as assets held for sale (disposal groups) relate to the impairment of the investment in Intereuropa d.d. Koper of €2,348,999.
  The impairment of the investment in Intereuropa d.d. Koper has been recorded as at 31 December 2010 and was based on a calculation using 8-year cash flow projections, taking into account a discount rate of 12%, whereas cash flows in excess of the 8-year period were extrapolated using a 2% growth rate.
- Finance expenses for the impairment of investments held at cost amounted to €1,435,980, the majority of which relates to the impairment of the investment in Aerodrom Portorož, d.o.o. and the Poteza Adriatic Fund.
- The majority of finance expenses for impairment of other investments, in the amount of €1,466,531, relate to the impa-irment of the loan in the amount of 1,392,339 (project Panonija).

In 2010, finance expenses for borrowings amounted to €8,951,286 (in 2009: €8,494,883). Compared to 2009, finance expenses in 2010 increased by 5% on account of the increase in interest rates on long-term and short-term borrowings. A detailed analysis of the risk of interest rate fluctuations and a sensitivity analysis of financial liabilities, with regard to changes in variable interest rates, are disclosed in Note 29: Risk management.

Note 9: Total profit/(loss)

In 2010, the Company generated an operating profit of €12,127,917, compared to a €8,594,690 loss generated in 2009. When the financial loss of €14,692,280 (€57,074,641 in 2009) is taken into account, the total loss incurred in 2010 stands at €2,564,363 (2009: €65,669,331).

Note 10: Corporate income tax

	2010/€	2009/€
TOTAL LOSS BEFORE TAXATION	**(2,564,363)**	**(65,669,331)**
Corporate income tax (2010: 20%; 2009: 21%)	**512,873**	**13,133,866**
Non-taxable revenue	248,740	225,464
Non-taxable dividends received	811,627	663,523
Tax relief	233,756	—
Tax non-deductable expenditure	(524,029)	(683,506)
Tax non-deductable expenditure in relation to impairment of investments	(1,167,724)	(6,598,910)
Other reduction in the tax basis	16,966	20,013
Taxes	132,210	6,760,450
	%	**%**
Effective tax rate	**5.16**	**10.29**

In 2010, Luka Koper, d.d. reported a tax basis before the reduction in the tax basis and tax relief of €5,981,453. After taking tax relief of €1,463,764 and the use of unused tax loss from the previous year of €4,517,689 into account, the tax basis for 2010 is zero.

Note 11: Deferred tax

Deferred tax reduces the net loss for 2010 by €132,475, whereas the deferred tax reduced the net loss by €6,760,450 in the previous year. Deferred tax assets were made on account of the impairment charge for investments and provisions which are not fully tax deductable. On the other hand, they were reduced due to the utilisation of provisions and as a result of the disposal of previously impaired investments.

Deferred tax assets and liabilities recognised in the income statement are presented below:

	31. 12. 2010/€	31. 12. 2009/€
Deferred tax recognised in the income statement	**132,475**	**6,760,450**
Provisions	(88,804)	243,146
Unused tax losses	(903,272)	2,604,894
Long-term investments	760,245	3,908,409
Allowances for receivables	364,306	4,001

Deferred tax assets and liabilities recognised in the comprehensive income are presented below:

	31. 12. 2010/€	31. 12. 2009/€
Deferred tax on changes in fair value of available-for-sale financial assets	132,427	(1,437,825)

Note 12: Net loss per share

The objective of the information is to provide a criterion for the share of each ordinary share in the performance of the Company.

	2010/€	2009/€
Net loss	(2,431,888)	(59,191,003)
Weighted average number of ordinary shares	14,000,000	14,000,000
Basic net loss per share	(0.17)	(4.23)
Diluted net loss per share	**(0.17)**	**(4.23)**

Net earnings per share for 2010 was calculated by dividing the net operating loss by the weighted average number of ordinary shares in issue during the year. The calculation was based on the decision of the General Meeting of Shareholders for the conversion of all preference shares to ordinary shares using a ratio of 1:1. The share capital and changes in the share capital are disclosed in Note 24: Equity and reserves.

Following the conversion of all preference shares into ordinary shares, the diluted net earnings per share is equal to the basic net earnings per share.

ADDITIONAL NOTES TO THE BALANCE SHEET

Note 13: Intangible assets

	31. 12. 2010/€	31. 12. 2009/€
Intangible assets	**7,299,398**	**7,024,047**
Long-term property rights	7,299,398	7,024,047

No impairment loss was recognised on intangible assets in 2010 as there were no indications of their impairment. The movements in and accumulated amortization of intangible assets in 2010 and comparable information for 2009 are presented in the table in Note 15. As at 31 December 2010, no items of intangible assets were pledged as collateral.

Note 14: Property, plant and equipment

	31. 12. 2010/€	31. 12. 2009/€
Property, plant and equipment	**343,843,293**	**352,506,587**
Land	6,261,659	6,261,659
Buildings	226,808,072	207,643,197
Plant and machinery	84,045,380	94,015,714
Other plant and equipment	138,695	138,696
Fixed assets being acquired	26,589,487	44,434,099

No items of property, plant and equipment have been pledged as collateral for liabilities.

The cost value of the property, plant and equipment in use, of which the carrying value as at 31 December 2010 is zero, is €166,413,611.

The movements in and accumulated depreciation of property, plant and equipment are presented in the table in Note 15.

As at 31 December 2010, liabilities to suppliers of fixed assets amounted to €3,770,018 (in 2009: €17,962,897).

We have capitalised interest relating to the financing of investment property and, consequently, increased the cost of these assets by €97,621.

For the performance of its core activities, Luka Koper, d.d. also uses a quay and land owned by the Republic of Slovenia. Lease arrangement are detailed in the Concession Agreement for the Administration, Management, Development and Regular Maintenance of the Port Infrastructure at the Koper Port Terminal, concluded with the Republic of Slovenia on 8 September 2008. The Concession Agreement is described in more detail in chapter 10.

Note 15: Investment property

	31. 12. 2010/€	31. 12. 2009/€
Investment property	**37,120,101**	**37,449,118**
Land	20,828,209	20,828,209
Buildings	16,291,892	16,620,909

Investment property includes facilities which are leased under operating leases. Total rental income in 2010 reached €1.9m (In 2009: €1.7m), whereas the depreciation charge amounted to €638,090 (In 2009: €578,603).

The movements in property, plant and equipment, investment property and intangible assets, as well as their accumulated depreciation and amortization recorded in 2010 and 2009, are presented in the tables below.

TABLE OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN 2010

	Land €	Buildings €	Plant and equipment €	PPE being acquired and advances given €	TOTAL €
Cost					
As at 1 January 2010	**6,261,659**	**340,363,376**	**216,578,912**	**44,447,321**	**607,651,268**
Reclassification of impairment of opening balance		4,015			4,015
Additions		400,431	654,920	16,690,172	17,745,523
Transfer to use		29,531,668	3,549,493	(33,081,161)	—
Transfer to investment property				(305,007)	(305,007)
Transfer to intangible assets				(2,120)	(2,120)
Disposals		(155,940)	(3,148,120)		(3,304,060)
Transfer from investment property		1,192,326			1,192,326
Transfer to the sales account		(9,820)	(204,062)		(213,882)
Advances for acquisition of PPE				492,000	492,000
Transfer to non-current operating receivables				(1,757,419)	(1,757,419)
Transfer to PPE being acquired				105,701	105,701
Transfer from the sales account			126,843		126,843
As at 31 December 2010	**6,261,659**	**371,326,056**	**217,557,986**	**26,589,487**	**621,735,188**
Accumulated depreciation					
As at 1 January 2010		**132,720,180**	**122,424,503**		**255,144,683**
Additions					
Depreciation charge for the year		10,722,550	13,597,302		24,319,852
Disposals		(107,251)	(2,601,438)		(2,708,689)
Transfer from investment property		1,192,326			1,192,326
Transfer to the sales account		(9,820)	(173,300)		(183,120)
Transfer from the sales account			126,843		126,843

As at 31 December 2010		**144,517,985**	**133,373,910**		**277,891,895**
Carrying amount					
As at 1 January 2010	**6,261,659**	**207,643,196**	**94,154,409**	**44,447,321**	**352,506,585**
As at 31 December 2010	**6,261,659**	**226,808,071**	**84,184,076**	**26,589,487**	**343,843,293**

TABLE OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN 2009

	Land €	Buildings €	Plant and equipment €	PPE being acquired and advances given €	TOTAL €
Cost					
As at 1 January 2009	**24,391,475**	**270,109,355**	**166,747,172**	**76,987,863**	**538,235,865**
Additions		342,000	1,250,989	107,341,622	108,934,611
Transfer to use	3,422,400	70,479,225	51,685,899	(125,587,524)	—
Transfer to use -investment property				(4,762,488)	(4,762,488)
Transfer to intangible assets				(34,019)	(34,019)
Disposals		(535,597)	(2,943,138)	(7,561,355)	(11,040,090)
Transfer to investment property	(21,552,216)	(31,607)			(21,583,823)
Advances for acquisition of PPE				13,222	13,222
Transfer to the sales account			(162,010)	(1,950,000)	(2,112,010)
As at 31 December 2009	**6,261,659**	**340,363,376**	**216,578,912**	**44,447,321**	**607,651,268**
Accumulated depreciation					
As at 1 January 2009		**123,461,361**	**114,217,610**		**237,678,971**
Additions					
Depreciation charge for the year		9,390,232	11,016,161		20,406,393
Disposals		(118,788)	(2,677,580)		(2,796,368)
Transfer to investment property		(12,625)			(12,625)
Transfer to the sales account			(131,688)		(131,688)
As at 31 December 2009		**132,720,180**	**122,424,503**		**255,144,683**
Carrying amount					
As at 1 January 2009	**24,391,475**	**146,647,994**	**52,529,562**	**76,987,863**	**300,556,894**
As at 31 December 2009	**6,261,659**	**207,643,196**	**94,154,409**	**44,447,321**	**352,506,587**

TABLE OF CHANGES IN INTANGIBLE ASSETS IN 2010

	Intangible assets €	Intangible assets being acquired €	TOTAL €
Cost			
As at 1 January 2010	**11,909,003**	**6,484,499**	**18,393,502**
Additions		531,877	531,877
Transfer to use	4,414	(4,414)	—
Transfer to use from PPE	2,120		2,120
Disposals			—
Transfer to intangible assets being acquired		(105,701)	(105,701)
As at 31 December 2010	**11,915,537**	**6,906,261**	**18,821,798**
Accumulated amortization			
As at 1 January 2010	**11,369,454**		**11,369,454**
Additions			—
Amortization charge for the year	152,946		152,946
As at 31 December 2010	**11,522,400**		**11,522,400**
Carrying amount			
As at 1 January 2010	**539,549**	**6,484,499**	**7,024,048**
As at 31 December 2010	**393,137**	**6,906,261**	**7,299,398**

TABLE OF CHANGES IN INTANGIBLE ASSETS IN 2009

	Intangible assets €	Intangible assets being acquired €	TOTAL €
Cost			
As at 1 January 2009	**11,823,096**	**5,291,663**	**17,114,759**
Additions	56,937	1,342,675	1,399,612
Transfer to use from property, plant and equipment	34,019		34,019
Disposals	(5,049)	(149,839)	(154,888)
As at 31 December 2009	**11,909,003**	**6,484,499**	**18,393,502**
Accumulated amortization			
As at 1 January 2009	**11,219,192**		**11,219,192**
Additions			
Amortization charge for the year	150,262		150,262
As at 31 December 2009	**11,369,454**		**11,369,454**
Carrying amount			
As at 1 January 2009			
As at 31 December 2009	**539,549**	**6,484,499**	**7,024,048**

TABLE OF CHANGES IN INVESTMENT PROPERTY IN 2010

	Land €	Buildings €	TOTAL €
Cost			
As at 1 January 2010	**20,828,209**	**23,554,604**	**44,382,813**
Impairment of the opening balance		(4,015)	(4,015)
Additions		9,161	9,161
Transfer to use		305,006	305,006
Decrease		(1,980)	(1,980)
Transfer to land and buildings		(1,192,326)	(1,192,326)
As at 31 December 2010	**20,828,209**	**22,670,450**	**43,498,659**
Accumulated depreciation			
As at 1 January 2010		**6,933,695**	**6,933,695**
Increase			–
Depreciation		638,090	638,090
Decrease		(901)	(901)
Transfer from investments property		(1,192,326)	(1,192,326)
As at 31 December 2010		**6,378,558**	**6,378,558**
Carrying amount			
As at 1 January 2010	**20,828,209**	**16,620,909**	**37,449,118**
As at 31 December 2010	**20,828,209**	**16,291,892**	**37,120,101**

TABLE OF CHANGES IN INVESTMENT PROPERTY IN 2009

	Land €	Buildings €	TOTAL €
Cost			
As at 1 January 2009	**4,880,939**	**18,548,611**	**23,429,550**
Impairment of the opening balance		4,015	4,015
Additions		246,922	246,922
Transfer to use	39,039	4,723,449	4,762,488
Impairment	(5,643,985)		(5,643,985)
Transfer to land and buildings	21,552,216	31,607	21,583,823
As at 31 December 2009	**20,828,209**	**23,554,604**	**44,382,813**
Accumulated depreciation			
As at 1 January 2009		**6,342,467**	**6,342,467**
Increase			
Depreciation		578,603	578,603
Decrease			
Transfer from investments property		12,625	12,625
As at 31 December 2009		**6,933,695**	**6,933,695**
Carrying amount			
As at 1 January 2009	**4,880,939**	**12,206,144**	**17,087,083**
As at 31 December 2009	**20,828,209**	**16,620,909**	**37,449,118**

Note 16: Non-current financial investments

	31. 12. 2010/€	31. 12. 2009/€
Non-current financial investments	**54,474,523**	**89,988,457**
Non-current financial investments excluding loans	**52,130,784**	**87,234,960**
Investments in subsidiaries	**6,912,006**	**10,718,955**
Investments in subsidiaries – purchase value	7,573,931	11,446,578
Impairment of investments in subsidiaries	(661,925)	(727,623)
Investments in associates	**9,374,096**	**28,691,244**
Investments in associates – purchase value	14,516,045	58,185,749
Impairment of investments in associates	(5,141,949)	(29,494,505)
Other shares and interests	**35,844,682**	**67,467,129**
a. Other shares and interests – available for sale	28,669,237	34,360,346
b. Other shares and interests – at cost	7,175,445	10,074,308
- Other shares and interests at cost – purchase value	31,053,900	33,106,783
- Impairment of other shares and interests at cost	(23,878,455)	(23,032,475)
c. Other shares and interests	—	3,390,107
Non-current loans	**2,343,739**	**2,753,497**
Mortgages to employees	195,011	473,869
Impairment of housing loans	(9,847)	(19,602)
Loans to others	31,644	8,373
Impairment of loans to others	—	—
Investments in bonds and deposits	2,169,700	2,290,857
Impairment of investments in bonds and deposits	(42,769)	—

Non-current financial investments excluding loans

On the last day of the 2010 financial year, the Group's non-current investments totalled €54,474,523 and accounted for 11% of its total assets. These investments mostly consist of investments in associates and jointly-controlled companies, and other investments in securities and interests.
Non-current financial investments in associates increased with the purchase of a 49% share in Adria terminali d.o.o. in the amount of €410,000, whereas the decrease in non-current financial investments is due to the transfer of the investment in Adriasole d.o.o. and Ecoorto d.o.o. among the subsidiaries. According to IAS 27, the proper share of the parent company in the abovementioned companies does not ensure control over them; therefore, they were included among the associates. Besides the transfer of these companies from subsidiaries to associates, the investments in associates were impaired in the amount of €4,387,096.

The decrease in the value of non-current financial investments in associates is the result of the re-classification of the financial investment in Intereuropa d.d. in the group of assets (of disposal groups) held for sale. The purchase value of this investment amounts to €47,868,653. In 2009 this investment was impaired by €28,721,653. This investment was transferred to the group of assets (of disposal groups) held for sale, with its carrying amount as at 31 December 2010 being €19,147,000. The group of financial investments held for sale was valued at €28,669,237 as at 31 December 2010 (2009: €34,360,346). From this group, the recognition of sold shares was extinguished, which is presented in the income statement, whereas the revaluation of other investments held for sale is presented in the statement of comprehensive income. The fair value of investments included among the investments held for sale dropped slightly in 2010; therefore, the revaluation surplus was reduced and amounted to €13,143,609 as at 31 December 2010 (2009: €13,805,743).
All other non-current investments carried at cost, in the amount of €7,175,445, include non-market securities and interests, the value of which has decreased in 2010 as a result of an alienation of a 17.09% share in SC Trade Trans Terminal s.r.l in the amount of €410,000.
Investments within this group were impaired by €1,435,978 in 2010.

Non-current loans

As at 31 December 2010, non-current loans amount to €2,343,740 (2009: €2.753.497). Out of this, 8% represents mortgages granted to employees, 34% bonds issued by Slovenska odškodninska družba and 58% investments in bonds issued by commercial banks. The mortgages which are due in 2011, totalling €125,949, are presented among the current loans to others. Mortgages were initially granted to employees on the basis of the Housing Act of 1991, and later on the basis of the internal housing rules. The longest repayment term is 20 years. All mortgages are secured using a collateral class specified in the internal rules.
Among investments in securities with a fixed rate of return, the largest share represents investments in bonds issued by Slovenian commercial banks with maturities through to 2020. As at 31 December 2010, the amortized cost of these investments of €2.1m (2009: €2.3m) is the result of a portion of the principal maturing with redeemed coupons. The interest rate spread for investments classified as loans ranges between the nominal amount of 2.4% and 6.0%.

Note 17: Non-current operating receivables

	31. 12. 2010/€	31. 12. 2009/€
Non-current operating receivables	**41,559**	**220,307**
Non-current operating receivables from others	41,559	220,307

Note 18: Deferred tax assets

	31. 12. 2010/€	31. 12. 2009/€
Deferred tax assets	**9,423,475**	**9,291,000**

Deferred tax assets account for the temporary differences arising from the formation of provisions for termination benefits upon retirement and long-term service bonuses in the amount of €122,205, from the impairment of receivables in the amount of €229,073, from the non-current financial investments in the amount of €6,889,291, from the formation of provisions for regular maintenance in the amount of €481,284, and from unused tax losses in the amount of €1,701,622.

Note 19: Assets held for sale

	31. 12. 2010/€	31. 12. 2009/€
Assets (of disposal groups) held for sale	**18,211,752**	**1,382,987**

Based on interest in the purchase of shares of Intereuropa d.d. and in accordance with the accepted segmentation and financial investment management policy, the Board of Directors decided to dispose of the investment in Intereuropa d.d. In December 2010, a public tender process was announced on SEOnet.
This investment was classified within the non-current assets (of disposal group) held for sale at a carrying value which amounted to €19,147,000 (investment was additionally impaired by €2,348,999 based on the valuation performed on 31 December 2010). Within the assets (of disposal groups) held for sale we can also find the building, Luna, with a value of €1,830,000 and other property, plant and equipment items which were classified within this group at the inventory count.

Note 20: Current financial investments

	31. 12. 2010/€	31. 12. 2009/€
Current financial investments	**1,131,029**	**2,564,111**
Current loans within the Group	293,338	289,922
Deposits at banks	—	1,742,614
Current loans to others	2,964,961	1,235,084
Impairment of current loans	(2,127,270)	(703,509)

Among the current loans within the Group, there is only one loan – to subsidiary Adria Terminali, d.o.o. – with tax allowable interest rate for related parties.

Among the current loans outstanding to others, the major part represents a loan in the amount of €2,102,339, which relates to the acquisition of land for development of hinterland terminals (project Panonija). As at 31 December 2010, the valuation of land was performed; on this basis and due to the debtors' inability to repay the debt, the loan was impaired by €1,392,339. All current financial investments in deposits were repaid in 2010 and no new investments were made.

Total revenue from interests in non-current and current financial investments (using the actual interest method) decreased in 2010 due to the lower balance of loans and deposits and amounted to €276,026 (2009: €434,996).

Note 21: Current operating receivables

	31. 12. 2010/€	31. 12. 2009/€
Current operating receivables	**22,335,500**	**19,929,684**
Current domestic trade receivables	5,415,871	5,042,718
Current domestic trade receivables bad debt allowance	(62,441)	(70,484)
Current operating receivables from related parties	367,168	812,089
Current operating receivables from subsidiaries	349,969	305,085
Current foreign trade receivables	8,565,303	3,381,440
Current foreign trade receivables bad debt allowance	(3,298)	(3,276)
Advances for current assets	5,481	15,783
Current operating receivables from exports	4,666,942	3,599,329
Current operating receivables from subsidiaries	1,154,991	1,352,698
Current operating receivables from exports bad debt allowance	(36,774)	(30,741)
Current interest receivable	127,892	149,656
Current interest receivables bad debt allowance	(41,890)	(18,566)
Input VAT receivables	650,204	641,270
Other current receivables	492,707	524,993
Other current receivables bad debt allowance	(312,900)	—
Receivables from taxes and excise duties	996,275	4,227,690

With most trade receivables, Luka Koper, d.d. has an option to enforce a legal lien over the stored goods in its possession. Receivables from taxes include VAT receivables of €962,190, which relate to VAT settlement for November and December 2010. The same receivables in 2009 amounted to €4,202,865 and included VAT settlements for the period October 2009 to December 2009. Receivables from excise duties include settlement for November and December 2010 in the amount of €34,085 (2009: €24,825).
As at 31 December 2010, no receivables are due from Members of the Management Board and the Supervisory Board.

Maturity	31. 12. 2010/€	31. 12. 2009/€
Outstanding trade receivables not past due, not impaired	**17,387,890**	**12,001,857**
Due within 30 days	2,074,770	1,360,198
Due between 31 and 60 days	207,685	527,376
Due between 61 and 90 days	134,002	171,076
Due between 91 and 180 days	212,165	166,073
Due between 181 and 365 days	255,636	229,693
Due more than 365 days	241,184	134,517
Total past due and not impaired	**2,979,906**	**2,465,865**
Past due and (partly) impaired	**145,536**	**123,068**
Total trade receivables	**20,513,332**	**14,590,790**

Note: the amount includes receivables from interests but does not include foreign exchange rate differences and advance payments.

Total income from interest on late payments in 2010 amount to €142.748 (2009: €166,474)

Changes in bad debt allowance	2010/€	2009/€
Bad debt allowance as at 1.1.	**123,068**	**427,495**
-write-downs during the year	66,914	288,477
-payments during the year	4,935	38,392
+additional increase in bad debt allowance	94,317	22,442
Bad debt allowance as at 31.12.	**145,536**	**123,068**

Note 22: Cash

	31. 12. 2010/€	31. 12. 2009/€
Cash	**592,296**	**488,580**
Cash in bank accounts	366,733	386,463
Current deposits	225,563	102,117

Cash, which amounted to €592,296 as at 31 December 2010, includes money in bank accounts and current bank deposits with a maturity of up to 3 months after the balance sheet date. The Company has not agreed any automatic overdraft facilities in its current accounts with banks. For daily cash surpluses on transaction accounts, the Company has agreed framework contracts with a commercial bank and a contract for the transfer of any surplus cash, thus ensuring optimum liquidity.

Note 23: Deferred costs and accrued revenue

	31. 12. 2010/€	31. 12. 2009/€
Current deferred costs and accrued revenue	**471,750**	**689,138**
Current deferred costs	94,860	141,395
Insurance premiums	57,954	54,358
Transitionally accrued revenue	318,936	493,385

Note 24: Equity and reserves

	31. 12. 2010/€	31. 12. 2009/€
EQUITY	**235,376,191**	**238,337,787**
Called-up capital	**58,420,965**	**58,420,965**
Share capital – ordinary shares	58,420,965	58,420,965
Capital surplus	**89,562,703**	**89,562,703**
Revenue reserves	**76,877,636**	**79,309,524**
Legal reserves	18,765,115	18,765,115
Other revenue reserves	58,112,521	60,544,409
Retained earnings	—	—
Unallocated profit for the year	—	—
Revaluation surplus	**10,514,887**	**11,044,595**
Adjustment to deferred tax surpluses	(2,628,722)	(2,761,149)
Surplus from the revaluation of investments	13,143,609	13,805,744

Share capital

The share capital of Luka Koper, d.d., consists of 14,000,000 ordinary no par value shares that are freely transferable.

Reserves

The Company has allocated 10% for legal reserves. Capital surplus and legal reserves are not distributable. Capital surplus is carried at amounts resulting from the reversal of the general capital revaluation adjustment. No statutory reserves have been set aside as they are not envisaged in the Articles of Association.

Revaluation surplus

Revaluation surplus from the valuation of investments at fair value, amounted to €13,143,609 at the 31 December 2010 and is lower by €662,135 compared to 31 December 2009. This is the result of the disposal of some investments in the Group in 2009, and due to a slight decrease in the SBI TOP index.

Retained earnings

The appropriation of retained earnings for 2009 and the determination of retained earnings for 2010 are described in Section 12 headed "Statement of retained earnings/accumulated loss".
The dividend policy of the Company balances the aspiration of its owners for profit and the aspiration for the usage of retained earnings for future investments. Taking the financial results for 2010 into consideration, the Company does not plan any dividend payments, whereas, on the other hand, it is planned that the Company will allocate up to one third of the profit in future years for dividends. This takes all planned investments in port infrastructure and equipment into consideration.

Note 25: Provisions, non-current accrued costs and deferred revenue

	31. 12. 2010/€	31. 12. 2009/€
PROVISIONS	**5,358,127**	**6,032,940**
Provisions for retirement and jubilee benefits	979,341	1,163,842
Provisions for legal disputes	1,972,367	2,392,745
Non-current accrued costs and deferred revenue	2,406,419	2,476,353

The provisions for retirement and long-term service bonuses were formed in the amount of the present value of expected future expenditure. The amount is based on an actuarial calculation made as at 31 December 2010 and is based on the following assumptions:

- The valid current level of retirement and long-term service bonuses
- The average annual increase of salaries and average inflation in 2010
- The death rate based on the mortality index in Slovenia 2000–2002
- The 3.25% discount factor
- Employee turnover according to age

Provisions for legal disputes were made in the amount of €1,972,367 (2009: €2,392,745) and based on the estimated amount of potential damages provided by internal legal services or other external lawyers, taking the existing and potential lawsuits and claims into consideration.
In accordance with the Concession agreement, Luka Koper, d.d. has obtained the right and obligation to collect port duties which represent income intended to cover the costs of the provision of commercial public services. Any surplus of revenue over costs is retained as a provision for the costs of the ordinary maintenance of port infrastructure in future years.
As at 31 December 2010 the provisions for regular maintenance amount to €2,406,419 (2009: €2,466,304).

Table of changes in provisions

	Provisions for damages and compensation €	Provisions for retirement bonuses €	Provisions for jubilee benefits €	Provisions for regular maintenance €	Non-current accrued costs and deferred revenue €	Total €
Opening balance as at 1.1.2010	**2,392,745**	**868,239**	**295,603**	**2,466,304**	**10,049**	**6,032,940**
Provisions formed in 2010	522,929	—	—	—	9,447	1,715,842
Provisions used in 2010	(111,522)	(84,232)	(12,667)	(59,885)	(19,496)	(287,802)
Provisions reversed in 2010	(831,785)	(82,663)	(4,939)	—	—	(2,102,853)
Closing balance as at 31.12.2010	**1,972,367**	**701,344**	**277,997**	**2,406,419**	**—**	**5,358,127**

Note 26: Non-current liabilities

	31. 12. 2010/€	31. 12. 2009/€
FINANCIAL AND OPERATING LIABILITIES	**161,075,952**	**47,874,671**
Non-current financial liabilities	**158,376,144**	**45,032,490**
Non-current borrowings from domestic banks	124,441,529	112,190,592
Non-current borrowings from foreign banks	33,934,615	37,920,898
Transfer to current liabilities due to not meeting loan covenants	—	(105,079,000)
Non-current operating liabilities	**2,699,808**	**2,842,181**
Deferred tax liabilities	2,628,722	2,761,149
Non-current advances and collateral received	71,086	81,032

Non-current financial liabilities

The total non-current and current financial liabilities to banks decreased by €8,864,007 in 2010 compared to 2009.
Non-current financial liabilities to banks amount to €158,376,144. In 2009, according to IAS 1.65, non-current financial liabilities were reclassified as current as the Company was not meeting the required covenants stated in the loan contracts (the reclassified amount was €105,079,000). As at 31 December 2010, financial liabilities are reported at original maturity; therefore, the amounts that were reclassified in 2009 were transferred back to long-term financial liabilities. In 2010, we reached all financial covenants under loan contracts, with exception of that relating to a long-term loan of €5.8m, which is due to investment impairment. Only the portion of the principal of loans due in 2011 was classified under current loans.
All bank loans are bound to a variable interest rate. The variable interest rate, calculated as the annual nominal interest rate as at 31 December 2010, is between 2.4% and 5.6%.

All non-current loans are repaid according to a predetermined schedule. For some of the loans, the Company was granted a moratorium on the payment of the principal. All liabilities for non-current bank borrowings are insured with blank bills of exchange and the usual financial commitments. The scheduled payments of non-current borrowings from banks are presented in the table below.
The table shows the balance of principal agreed for the loans. On the last day of the year, €66,202,339 of borrowings were transferred to current liabilities. Loans received from subsidiaries and associates, in the amount of €11,378,245, are also included in current borrowings.
Should the variable rate of interest remain unchanged over the period, interest costs on the non-current financial liabilities disclosed in the table would total €28,679,105.

Principal balance of non-current borrowings as at 31.12.2010 and its maturity by year	2011 €	2012 €	2013 €	2014 €	2015 €	2016–2025 €
224,879,000	66,202,339	28,893,860	45,478,860	15,437,860	15,331,161	53,534,921
Expected interest	6,655,831	5,118,921	3,993,666	2,885,770	2,306,369	7,718,549

Principal balance of non-current borrowings as at 31.12.2009 and its maturity by year	2010 €	2011 €	2012 €	2013 €	2014 €	2015–2019 €
200,235,000	36,356,000	62,324,000	22,574,000	39,159,000	8,222,000	31,600,000
Expected interest	5,814,767	3,658,897	2,349,575	1,546,609	840,650	1,983,581

The Company regularly settles its non-current financial liabilities in accordance with the repayment plan. As at 31 December 2010, the Company has no granted yet unused loans.

Non-current operating liabilities

Non-current operating liabilities include non-current collateral received for leased business premises. Upon the termination of the lease, collateral is returned to the tenant, on the proviso that he has settled all his liabilities to the Company. Otherwise, collateral is used to settle the due and outstanding liabilities of tenants.
Deferred tax liabilities which arose in the past from the valuation of investments at fair value, and which were reported as a separate equity component, are not reported in 2010 as their amount is lower than the amount of deferred tax assets.

Note 27: Current liabilities

	31. 12. 2010/€	31. 12. 2009/€
Current financial liabilities	**77,693,895**	**199,625,466**
Current financial liabilities to banks	66,202,339	83,331,000
Current financial liabilities to Group companies	9,800,389	10,119,365
Reclassification of non-current financial liabilities due to not meeting loan covenants	—	105,079,000
Current financial liabilities to associates	1,577,856	983,019
Current financial liabilities to others	113,311	113,082
Current operating liabilities	**14,708,649**	**28,479,184**
Current operating liabilities from advances	23,803	24,395
Current operating liabilities to suppliers	9,918,381	23,345,234
Current operating liabilities to Group companies	884,291	879,829
Current operating liabilities to associates	134,738	51,464
Current operating liabilities to others	3,747,436	4,178,262

Current financial liabilities

As at 31 December 2010, current financial liabilities from borrowings from banks amounted to €66,202,339 (2009: €188,410,000) and solely represent the amount of non-current bank borrowings which are due in 2011. In accordance with the Company's financing policy, a proportion of current financial liabilities was restructured as non-current.
All bank loans are bound to variable interest rate. The variable interest rate, calculated as annual nominal interest rate as at 31 December 2010, is between 2.4% and 5.6%.
Total interest expense from non-current and current borrowings (using the actual interest method) amounted to €8,951,286 (2009: €8,494,833).
As at 31 December 2010, the Company did not have any outstanding and due liabilities to suppliers.

Accrued costs and deferred revenue

	31. 12. 2010/€	31. 12. 2009/€
Accrued costs and deferred revenue	**731,862**	**1,183,967**
Accrued costs or expenses	731,862	1,183,967
Current deferred revenue	—	—

A significant item represents accrued interest on loans and commercial discounts.

Note 28: Related party transactions

Receivables from Members of the Management Board in 2010

Name and Surname	Gross salary fixed portion €	Gross salary variable portion €	Annual leave allowance and jubilee benefits €	Benefits and other receipts €	Total remuneration €
Gregor Veselko, Chairman	129,055	—	910	7,496	137,461
Tomaž Martin Jamnik, Deputy Chairman	115,762	—	910	6,243	122,915
Marko Rems, Member of the Management Board since 1.3.2010	86,831	—	758	3,679	91,268
Matjaž Stare, Workers Director since 18.10.2010	14,540	—	—	348	14,888
Total	**346,188**	**—**	**2,578**	**17,766**	**366,532**

Renumeration by employee group in 2010

	Gross salary (fixed and variable portion) €	Annual leave allowance and jubilee benefits €	Benefits and other receipts €	Total remuneration €
Members of the Management Board	346,188	2,578	17,766	366,532
Members of the Supervisory Board (nine Members)	—		64,018	64,018
Employees with individual employment contracts	2,542,931	27,538	192,527	2,762,996
Employees under enterprise collective agreement	20,206,340	678,598	220,694	21,105,632
Total remuneration	**23,095,460**	**708,714**	**495,006**	**24,299,180**

Receivables from Members of the Supervisory Board in 2010

Name and Surname	Meeting fees €	Reimburs-ement of costs €	Total Supervisory Board €	Meeting fees Commissios €	Reimburs-ement of costs Commissions €	Total commissions €	Total Supervisory Board and commissions €
Janez Požar, Member from 14.7.2009	8,460	1,554	10,014	506	141	647	10,661
Boris Popovič, Member from 2.9.2008 until 21.10.2010	2,112	—	2,112	—	—	—	2,112
Tomaž Može, Member from 14.7.2009	6,204	—	6,204	—	—	—	6,204
Bojan Brank, Member from 14.7.2009	6,204	1,213	7,417	858	256	1,114	8,531
Jordan Kocjančič, Member from 14.7.2009	5,016	863	5,879	572	216	788	6,667
Marko Simoneti, Member from 14.7.2009	6,204	1,281	7,485	440	126	566	8,051
Stojan Čepar, Member from 8.4.2009	6,642	365	7,007	220	108	328	7,335
Mladen Jovičič, Member from 8.4.2009	6,204	—	6,204	440	—	440	6,644
Nebojša Topič, Member from 27.7.2008	6,204	—	6,204	440	—	440	6,644
Blanka Vezjak, Member of the Audit Committee	—	—	—	660	509	1,169	1,169
TOTAL	**53,250**	**5,276**	**58,526**	**4,136**	**1,356**	**5,492**	**64,018**

The Company does not have any outstanding balances and payables with Members of the Supervisiory Board and the Management Board.

Transactions with the government of the Republic of Slovenia

No significant transactions were undertaken with the government outside the framework of the Concession Agreement. All transactions relating to the Concession Agreement are disclosed in the Appendix to the Annual Report.

Transactions with Group companies:

	2010/€	2009/€
Receivables from Group companies	**719,195**	**2,759,795**
Luka Koper Pristan, d.o.o.	1,425	115
Luka Koper INPO, d.o.o.	91,600	69,894
Adria Terminali, d.o.o.	566,236	433,123
Adria Investicije, d.o.o.	144	144
TOC, d.o.o.	326	1,632
Adriasole, d.o.o.	—	597,528
Intereuropa, d.d.*	—	1,530,917
Autoservis, d.o.o.	9,892	34,835
Adriafin, d.o.o.	1,344	—
Adria Transport, d.o.o.	30,699	74,586
Adria Tow, d.o.o.	17,529	17,021
Payables to Group companies	**12,509,206**	**12,033,666**
Luka Koper Pristan, d.o.o.	361,561	771,326
Luka Koper INPO, d.o.o.	10,319,710	10,224,417
Adria Terminali, d.o.o.	—	31

Adria Investicije, d.o.o.	3,409	3,409
TOC, d.o.o.	—	—
Intereuropa, d.d.*	—	44,650
Autoservis, d.o.o.	37,108	5,729
Adriafin, d.o.o.	283,928	401,085
Adria Transport, d.o.o.	1,044,783	583,019
Adria Tow, d.o.o.	458,707	—
Sales to Group companies	**1,684,689**	**11,096,850**
Luka Koper Pristan, d.o.o.	98,879	98,453
Luka Koper INPO, d.o.o.	344,858	291,809
Adria Terminali, d.o.o.	526,561	418,840
Adria Investicije, d.o.o.	1,440	1,440
TOC, d.o.o. Koper	—	13,600
Intereuropa, d.d.*	—	9,292,809
Autoservis, d.o.o.	245,113	362,669
Adriafin, d.o.o.	13,440	13,440
Adria Transport, d.o.o.	236,839	299,210
Adria Tow, d.o.o.	217,559	304,580
Purchase of goods and services from Group companies	**3,072,284**	**3,170,884**
Luka Koper Pristan, d.o.o.	25,222	67,316
Luka Koper INPO, d.o.o.	2,989,911	2,770,802
Adria Terminali, d.o.o.	17	2,772
Adria Investicije, d.o.o.	31,975	37,349
TOC, d.o.o. Koper	—	10,396
Intereuropa, d.d.*	—	247,859
Autoservis, d.o.o.	17,317	4,295
Adriafin, d.o.o.	—	20,673
Adria Transport, d.o.o.	—	—
Adria Tow, d.o.o.	7,842	9,422

*Intereuropa, d.d. – Intereuropa was allocated in the group for disposal as at 31 December 2010

Note 29: Risk management

- The most significant financial risks of Luka Koper, d.d., include:
- The risk of changes in fair value
- The risk of changes in interest rates
- Liquidity risk
- The risk of changes in foreign currency rates
- Credit risk
- The risk of adequate capital structure

Financial risk management for Luka Koper, d.d., is organised within the finance department. In the current economic environment, the forecasting of future financial risks is extremely demanding and introduces a higher degree of variability and, consequently, a higher level of risk into the planned categories. The Company has therefore tightened its control over individual financial categories.

The risk of changes in fair value

Luka Koper, d.d., has invested 5.7% of its assets (7.2% in the previous year) in investments classified into the first group (financial assets at fair value through profit/(loss)) and investments in the fourth group (at fair value through the statement of comprehensive income).

The fair value risk associated with these investments is demonstrated through changes in stock market prices, which affect the value of these assets and, consequently, the potential capital gain upon their disposal.

This type of risk was identified in association with investments in managed investments, the market securities of successful Slovenian companies and investments in Slovenian mutual funds. Specific risks were managed primarily through the diversification of the portfolio.
As at 31 December 2010, the value of investments at fair value amounted to €28,669,237. In light of the conditions in the capital markets, it is difficult to forecast any future changes. Nevertheless, the Company estimates that the stock market prices have reached their lowest levels in the year and that, in all probability, the value of all investments carried at fair value will stabilise at higher levels in a few years.

The sensitivity of investments to changes in fair value is presented in Table A.

Table A: Sensitivity analysis of investments to the changes in fair values

Item	Balance at the end of the year €	Increase in comparable class %	Envisaged increase in value €	Decrease in comparable class %	Envisaged decrease in value €
Year 2010					
Shares and interests at fair value (average change over the last five years)	28,669,237	8.52	2,442,232	(5.21)	(1,494,667)
Shares and interests at fair value (10% change)	28,669,237	10.00	2,866,924	(10.00)	(2,866,924)
Shares and interests at fair value (annualised maximum change over the last five years)	28,669,237	70.97	20,346,558	(66.09)	(18,947,499)
Year 2009*					
Shares and interests at fair value (average change over the last five years)	37,750,453	9.98	3,767,524	(6.21)	(2,346,127)
Shares and interests at fair value (10% change)	37,750,453	10.00	3,775,045	(10.00)	(3,775,045)
Shares and interests at fair value (annualised maximum change over the last five years)	37,750,453	70.97	26,790,669	(66.09)	(24,947,862)

* For the purpose of a sensitivity analysis of investments to changes in fair value for 2009, the values of the SBI TOP index were used; this is the reason for discrepancies according to previous year's calculations in the Annual Report 2009 (in which the SBI 20 index is used).

The sensitivity analysis of investments at fair value is made under the assumption that past fair value changes – the SBI TOP index is used – will be reflected in future periods. The average variability of the class was assessed for the past five years by calculating the average deviation of daily values (both in terms of increases and decreases) from the annual trend of the SBI TOP index. According to the above analysis, we can assume that, in 2011, the fair value of investment portfolio carried at fair value could decrease by 5.21% or increase by 8.52%.

When considering the highest annual increase in the level of the index in the past five-year period, we can expect the risk item to increase by 70.97% or decrease by 66.09% in 2011. If we further simplify our expectations by assuming a 10% increase in the value of the index, such growth would result in an increase in the fair value of the market securities portfolio by €2,866,924. A 10% decrease in the comparable class would have the opposite effect, reducing the fair value of these investments by the same amount. If this was the case, the difference would be recognised as either an increase or decrease in equity.

Fair value hierarchy

Fair value hierarchy	31. 12. 2010/€	Level 1 €	Level 2 €	Level 3 €
Available-for-sale financial assets	28,669,237	28,669,237	—	—
Securities and other investments	28,669,237	28,669,237	—	—

Fair value hierarchy	31. 12. 2010/€	31. 12. 2009/€
Assets measured at fair value	**28,669,237**	**37,750,453**
Financial assets at fair value through profit/(loss)	—	3,390,107
Derivatives held for trading	—	—
Available-for-sale financial assets	28,669,237	34,360,346
Derivatives	—	—
Cash flow hedges	—	—

The management estimates that the fair value of financial assets and financial liabilities do not differ significantly from the book values.

Management of the risk of interest rate changes

With the increased volume of foreign financing sources, the risk of changes in interest rates is becoming increasingly more important as unexpected growth in variable interest rates can jeopardise the planned results. In 2010 financial liabilities decreased by 3.5% compared to the previous financial year, reaching €236,070,039 as at 31 December 2010. The share of financial liabilities in the overall structure of liabilities rose from 46.5% in 2009, to 47.5% in 2010.
Detailed information concerning long-term financial liabilities is provided in the business report in the chapters headed "Analysis of operations of the Luka Koper Group" on page 47 and "Financial management" on page 60.
No special collateral was granted for the Company's financial liabilities tied to variable interest rates. The effect of potential changes in variable interest rates on the future results of the Company is presented in Table B.

Table B: Sensitivity analysis of financial liabilities with regard to changes in variable interest rates

Balance of liabilities linked to a variable interest rate	Amount of liabilities 31.12.2010 €	Potential increase in interest rates by 15% €	Potential increase in interest rates by 50% €	Potential increase in interest rates by 100% €
1M EURIBOR	1,000,000	1,173	3,910	7,820
3M EURIBOR	141,029,000	212,813	709,376	1,418,752
6M EURIBOR	82,850,000	152,485	508,285	1,016,570
Total effect	**224,879,000**	**366,471**	**1,221,571**	**2,443,141**

Balance of liabilities linked to a variable interest rate	Amount of liabilities 31.12.2019 €	Potential increase in interest rates by 15% €	Potential increase in interest rates by 50% €	Potential increase in interest rates by 100% €
1M EURIBOR	8,000,000	5,436	18,120	36,240
3M EURIBOR	121,960,000	128,058	426,860	853,720
6M EURIBOR	84,600,000	126,139	420,462	840,924
Total effect	**214,560,000**	**259,633**	**865,442**	**1,730,884**

The analysis of the sensitivity of financial liabilities to changes in variable interest rates is based on the assumption of a potential growth in interest rates of 15%, 50% and 100% (no further fall in interest rates is expected due to the current market conditions).

If variable interest rates increase by 15% in 2011, the Company would incur a negative effect on interest expenses of €366,471 (taking into account the level of financial liabilities as at 31 December 2010). If variable interest rates rose by 50% or 100%, the negative effect of the increase in variable interest rates would result in an increase in interest expense by €1,221,571, or €2,443,141, respectively.

Regardless of the sensitivity analysis, the Management Board of the Company believe that no significant increase in variable interest rates will occur in 2011 and expect to significantly decrease the risk of changes in variable interest rates in 2011 through the strategic timing of long-term interest risk hedges.

Management of liquidity risk

Luka Koper, d.d., manages liquidity risk through the regular planning of cash flows with different maturities. By carefully planning all its liabilities, the Company ensures consistent compliance with the agreed deadlines. Our preventive measures of regular monitoring and responding to delayed payments of receivables ensure the effective management of receivable collection. Additional measures for preventing delays in receivable collection include charging penalty interest in accordance with our standard policy for the management of receivables.

In 2010, the Company intends to continue its process of converting short-term financial liabilities to long-term liabilities by raising longer term loans, which will additionally reduce its exposure to liquidity risk.

Maturity structure of financial liabilities

	Past due €M	On demand €M	Up to 3 months €M	3 – 12 months €M	1 – 5 years €M	Over 5 years €M	Total €M
2010							
Borrowings *			5,945	71,335	105,142	53,535	235,957
Interest			1,573	5,213	14,305	7,712	28,803
Other financial liabilities	113						113
Supplier payables			10,961				10,961
2009							
Borrowings			3,295	77,371	132,279	31,600	244,545
Interest			1,883	5,639	15,231	8,832	31,585
Other financial liabilities	113						113
Supplier payables			24,301				24,301

*This item also includes borrowings to subsidiaries and associates

The management estimates that the Company's exposure to liquidity risk is low, and as a result of the effective system of liquidity risk management, the likelihood of adverse affects is also considered low.

Management of currency risk

The risk of changes in foreign exchange rates arises predominantly from trade receivables denominated in US dollars. The average monthly invoiced sales ranged from US$0.34m to US$0.58m, with the average monthly invoiced sales in US dollars equivalent to €0.48m.

As at 31 December 2010, outstanding receivables denominated in US dollars amount to only 2.01% (in 2009: 2.48%) of total outstanding trade receivables. According to the Company's estimates, the share of receivables denominated in US dollars is insignificant and, for this reason, the decision was made not to continue hedging the risk item by internal hedging methods.

The management estimates that the Company's exposure to currency risk is low, and as a result of the effective system designed to manage currency risk and other conditions, the likelihood of adverse affects is also considered low.

Management of credit risk

In light of the global recession, the management of counterparty risk, i.e. credit risk, has increased in importance. Customer defaults are being passed on to economic entities, much like a chain reaction, which significantly reduced the assessed probability of inflows and additional costs of financing the operations. The accelerated debt collection contributes to minimising the negative effects of wide-spread insolvency.

The specific structure of our customers (the Company predominantly carries out business with a limited number of major companies such as freight forwarders and agents), has a positive effect in terms of credit risk, as it considerably reduces exposure to credit risk and the Company has a relatively limited scope of receivables arising from direct business dealings with end-users of services. Another distinctive feature of the Company's business is the use of liens on stored goods, which may be exercised in order to collect debt or receive payment for obligations that are not settled by customers.

Some receivables have been secured with collateral which is returned to the customers once all obligations have been settled. Investments include loans which are secured with blank bills of exchange and other movable and immovable property.

The credit risk management policy outlined above is reflected in the relatively low share of bad debt impairment, which reached 0.52% in 2010. This is the result of a comprehensive approach to the management of trade receivables. The Company has devoted more attention to this area and has adapted its internal procedures to the situation of insufficient liquidity in the wider economic area.

The management estimates that the Company's exposure to credit risk is low, and as a result of the effective system designed to manage credit risk, the likelihood of adverse affects is also considered low.

Management of the risk of adequate capital structure

The identification of the optimal capital structure and, consequently, the alignment of existing capital structure with it, is of key importance for the success of an entity, as equity is the most expensive form of financing. In order to align its capital structure optimally, and to be able to primarily finance its own organic growth, the Company has in recent years been increasing the share of financial liabilities in its total liabilities and equity.

In the last six-year period, the share of equity in liabilities decreased from 84.2% as at 31 December 2005, to 47.8% as at 31 December 2010. This change in the capital structure is the result of increased indebtedness (more details in Note 27), in order for the Company to finance its own investment projects.

The Company has identified a risk of excessive indebtedness. The Company will, in line with its long-term policy, try to reduce its share of total liabilities.

The management estimates that the Company's exposure to the risk of adequate capital structure is moderate, and as a result of the effective system designed to manage this risk, the likelihood of adverse affects is also considered moderate.

Note 30: Off-balance sheet records

Off-balance sheet accounts include the items that do not qualify for recognition in the balance sheet.

	31. 12. 2010/€	31. 12. 2009/€
Total off-balance sheet assets and liabilities	**22,480,703**	**16,210,753**
Liability for a loan guarantee issued to the subsidiary Adria-Tow, d.o.o.	—	808,500
Joint collateral for a loan to the subsidiary Adria-Tow,d.o.o.	3,000,000	—
Joint collateral for a guarantee granted by the subsidiary Adria Terminali, d.o.o.	250,000	250,000
Liabilities for a guarantee issued to the Ministry of Finance	1,260,000	1,260,000
Liability for outstanding letters of credit to suppliers	492,000	—
Subsidiary collateral	5,511,209	8,678,903
Guarantee given to Banka Koper, d.d.	247,428	—
Received Guarantees	2,327,562	5,213,350
Guarantee given for given advance	492,000	—
Guarantees given for the removal of the faults	8,900,504	

Luka Koper, d.d. guarantees a loan drawn by Adria Tow, d.o.o. of €3,000,000 (In 2009: €800,500) .

Adria Terminali, d.o.o. received a bank guarantee for customs duties (of €250,000), which is secured with joint collateral issued by Luka Koper, d.d.

In order to secure liabilities relating to customs and excise duties, Luka Koper, d.d. obtained guarantees totalling €1,260,000 (In 2009: €1,260,000) from a Slovenian commercial bank.

The subsidiary collateral (of €5,511,209) consists of the following:

- 9,000 (2009: €9,000) guaranteed by Luka Koper, d.d. for Luka Koper Inpo, d.o.o. custom duties;
- 4,752,209 (2009: €5,119,903) guaranteed by Luka Koper, d.d. for the lease of train engines by Adria Transport, d.o.o.;
- 750,000 (2009: €750,000) guaranteed by Luka Koper, d.d. for a loan raised by Railport Arad S.r.l.

Among the guarantees received, the Company records guarantees received for loans, rents and advances to foreign suppliers in the amount of €2,819,562, and guarantees received from operators of construction works to correct errors within the agreed warranty period, in the amount of €8,900,504.

ADDITIONAL NOTES TO THE CASH FLOW STATEMENT

The cash flow from operating activities are presented under the indirect method. Material increases or decreases in individual items that affected the cash flows of the Company are disclosed in the income statement, balance sheet, and the statement of changes in equity.

The cash flow statement shows that the Company generated €18,462,630 in cash flows from operating activities and €19,191,416 in cash flows from investing activities (dividends, disposal of investments and fixed assets), which were used to cover expenses incurred in increased investing activities, primarily investments in fixed assets and long-term investments totalling €20,011,127, mostly fixed assets in the amount of €17,982,309. Net cash from financing activities reached €17,539,203.

The net cash inflow for the period amounted to €103,716 (2009: -€7,057,510).

The Company has compiled its annual cash flow plan as it is faced with uncertainty regarding forecasts. The following were considered in planning cash flows for the 2011 financial year:

- The share of credit sales,
- The timing of credit repayment by customers,
- The method of payment of overhead costs,
- Expenses for capital investments, and
- The timing of tax payments.

On the basis of the above, the Company is drawing up measures to eliminate cash flow imbalances.

ADDITIONAL NOTES TO THE STATEMENT OF CHANGES IN EQUITY

Net profit/(loss) for the year

Equity decreased by the net loss for the year of €2,431,888.

Other comprehensive income for the period

Other comprehensive income is negative, totalling -€2,961,596.

Owner transactions recognised in equity

According to a decision of the Management Board, the net loss of the financial year of €2,431,888 is to be settled by the release of other revenue reserves.

APPENDIX TO THE ANNUAL REPORT

REPORT UNDER THE PROVISIONS OF PARAGRAPHS 7.9.6. AND 9.3. OF THE CONCESSION AGREEMENT FOR THE PROVISION OF PORT ACTIVITIES, MANAGEMENT, DEVELOPMENT AND ORDINARY MAINTENANCE OF THE PORT INFRASTRUCTURE AT KOPER CARGO TERMINAL FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2010.

The implementation of the regulation on the management of the cargo port of Koper, the performance of port activities, the granting of concession in September 2008 for the management, administration, development and ordinary maintenance of certain port infrastructure, established the basis for the final regulation of the relationship between the Republic of Slovenia and Luka Koper d.d., in accordance with the Maritime Code of the Republic of Slovenia.

The Concession agreement is valid for 35 years from the date on which the contract was concluded.

CONCESSION CHARGES

In accordance with paragraph 10.1 of the Concession Agreement, Luka Koper, d.d. is obliged to pay an annual concession charge amounting to 3.5% of the total annual operating revenue, reduced by the total collected port dues.
The basis for the assessed charge is the audited income statement and special appendix to the Annual Report, according to paragraph 9.3 of the Agreement. The annual concession charge is paid in monthly prepayments, calculated on the basis of audited data for the previous calendar year, but no later than 30 July.

Overview of calculated and paid concession charges for 2009

	Operating revenue of Luka Koper, d.d. €	Concession charge calculation, 3.5% €	Prepayments, excluding VAT €
1.1.2010 – 31.12.2010	113,066,429	3,957,325	3,479,347
1.1.2009 – 31.12.2009	101,527,432	3,553,460	3,976,835
1.10.2008 – 31.12.2008	28,397,514	994,652	916,999

OVERVIEW OF INVESTMENTS IN THE PORT INFRASTRUCTURE

Pursuant to paragraph 7.4 of the Concession Agreement, a six-member Commission consisting of representatives of both contractual parties was appointed to perform a physical stock count of the port infrastructure.

Table A was terminated – a physical stock count, the activities related to Table B (which sets out the undepreciated value of fixed assets in accordance with the Concession contract) of the Commission are in progress.

INVESTMENTS IN PORT INFRASTRUCTURE

Pursuant to paragraph 7.9.6, Luka Koper maintains separate accounting records for investments in individual items of the port's infrastructure in its accounting records, namely:

Investment maintenance of port infrastructure for public transport

Luka Koper, d.d. is under an obligation under the Concession Agreement to maintain port infrastructure for public transport. The Company invested €443,581 for this purpose.

The cost of investment maintenance of port infrastructure for public transport is transferred to costs in the amount of the annual depreciation (in 2010 of total €145,227).

Investments in the development of port infrastructure for public transport

IInvestments in the development of the port infrastructure relate to the increase in the capacity of existing facilities and construction or manufacture of new items of the port infrastructure.

These investments are carried out on behalf and for the account of the Company. In 2010, €6,170,201 (2009: €6,077,447) was invested for this purpose, as presented in the tables below.

The depreciation of the investments in the development of port infrastructure for public transport is not a cost of the public company under the Concession Agreement.

Table of investments in 2010 in leased assets - shore

FA	NAME OF FIXED ASSETS	€
120103	ILLUMINATION OF HINTERLAND AREA OF MOOR 11	144,181
42029	HINTERLAND AREA OF MOOR 7A FROM 15. TILL 20. BOLLARD	186,120
42030	HINTERLAND AREA OF MOOR 7A FROM 7. TILL 15. BOLLARD	2,433,907
I201003	HINTERLAND AREA OF MOOR 12 WITH REMOVAL OF PREBURDENING DYKE	560,130
I310101-1	SETTLEMENT OF AREA ON DYKE AT THE FRONT OF THE PEER II	76,073
I640123	RECONSTRUCTION OF WATER SUPPLY NETWORK BETWEEN MORRR RO RO2 AND 7. MOOR	79,371
I640001	DEEPENING OF SHIPPING CANAL AND NORTH PART OF BASIN I	14,980
I640128	DEEPENING AND RECONSTRUCTION AT MOORS 2, 1 AND 1A	60,568
I640132	PROJECT OF CONSTRUCTION OF MOOR 10	5,918
I649105	MOOR FOR ALCOHOL AND OIL PRODUCTS – DEEPENING OF SEA BED	1,174,156
	TOTAL	**4,735,404**

In 2009 the Company invested €2,715,900 in leased assets – shore.

Table of other investments in the port infrastructure in 2010

FA	NAME OF FIXED ASSETS	€
90212	GR. IV. RAIL GROUPS OF RAILS ON PEER II	3,000
120102	RENOVATION OF LIGHTNING BETWEEN RAILS 47, 48 AND 49	42,291
140070	CLEANING OF SILT FROM ANKARAN CHANNEL	24,107
90213	RAIL WITH TRANSFUSING PLATFORM FOR TERMINAL FOR ALCOHOL	261,466
I5160021	TERMINAL FOR ALCOHOL AND OLI DERIVATIVES ON PEER I	309,322
I640004	PAVING OF RAILS 11, 12 AND 15	386,674
I640005	PAVING OF RAIL 1F	16,679
I640102	RECONSTRUCTION OF EXISTING RAILS 31, 32, 33 AND 35	337,498
I640106	REPAIR OF RAILWAY BRIDGE IN RAIL 25C AXIS	4,385
I640125	ELEMENTS FOR CUSTOMS FENCE	37,251
I648145	ROAD CONNECTION FOR NEW ENTRANCE	12,124
	TOTAL	**1,434.797**

In 2009 the Company invested €3,361,547 in the port infrastructure.

ROUTINE MAINTENANCE OF THE PORT INFRASTRUCTURE FOR PUBLIC TRANSPORT AND ORDINARY MAINTENANCE OF PORT AQUATORIUM

The table below presents the costs of routine maintenance of the port infrastructure for public transport:

Maintenance work	2010/€	2009/€
R1 – Shores, slope protection and equipment	353,396	89,563
R2 – Road infrastructure	297,483	148,015
R3 – Rail infrastructure	478,796	404,591
R4 – The port border surveillance	88,188	51,168
R5 – Removal of sea sediments EET	694,987	8,938
R6 – Removal of sea sediments at TTT	—	256,155
TOTAL	**1,912,850**	**958,430**

Pursuant to the provisions of paragraphs 8.2.1. and 8.2.3 of the Concession Agreement, the Company obtained the consent of the granting authority, who also issued a written confirmation reference no. 3731-2/2008/90-0005306 concerning the method of recording and monitoring ordinary maintenance costs in the Company's accounting records.

PERFORMANCE OF PUBLIC COMMERCIAL SERVICES

In accordance with paragraph 8 of the Concession Agreement, Luka Koper, d.d. is obliged to perform routine and investment maintenance of the port infrastructure as well as perform ordinary maintenance of the aquatorium, for which it is entitled to receive a payment out of port dues charged. Port dues must be published in the Official Gazette of the Republic of Slovenia once the approval of the competent Ministry has been obtained. Port dues are considered earmarked income of the concessionaire to cover the costs for the performance of public commercial services (paragraph 9.2).

INCOME STATEMENT RELATING TO THE PERFORMANCE OF PUBLIC COMMERCIAL SERVICES

	Notes	2010/€	2009/€
Revenue from port dues in the domestic market		3,254,821	3,672,055
Revenue from port dues in foreign markets		2,650,936	1,640,071
Other revenue		—	18,072
TOTAL REVENUE		**5,905,757**	**5,330,198**
OPERATING COSTS -direct		**2,648,652**	**1,620,934**
Costs of material		227	39,403
Costs of services		2,301,956	1,036,533
Depreciation and amortization charge		164,164	18,213
Labour costs		182,305	107,317
Other costs		—	419,468
Operating costs – indirect (criteria)	**1**	**3,316,990**	**1,242,960**
OPERATING PROFIT/(LOSS)		**(59,885)**	**2,466,304**
INCREASE IN PROVISIONS FOR ORDINARY MAINTENANCE	2		2,466,304
DECREASE IN PROVISIONS FOR ORDINARY MAINTENANCE		59,885	

Revenues of public commercial services are recorded based on business units created for this purpose with a purpose of ensuring separate accounting treatment of public commercial services (PCS) in accordance with the Concession Agreement. Revenues consist of port duties collected, as specified by the Maritime Code. These consist of duties collected for the use of the port and which have to be paid by every vessel based on every ton of unloaded or loaded cargo and storage charges, also fees paid by every vessel for the use of the quay and port for every other reason than the embarkation of passengers or loading the cargo.

Note 1 – Criteria

With the purpose of ensuring separate accounting treatment of public commercial services in accordance with Concession Agreement, Luka Koper, d.d. has two separated business units. Any expenditures relating to them are exclusively relating to the business activity of public commercial services.

Direct expenditures of public commercial services are disclosed according to their natural function based on which business processes incur them: depreciation and amortization, labour costs, costs of services and costs of materials.

Indirect expenditures of public commercial services are recognised using the criteria for the purpose of ensuring proper separation among business activities and separate accounting treatment among these business activities. In 2010, the criteria based on direct expenses, according to their natural function was used for the first time, based on which a correction to the 2009 figures due to the change in the accounting policy has been made, in the amount of €655,568.
These criteria for the distribution of indirect expenditure based on direct expenses and according to their natural function are used for all expenditure which resulted as a consequence of many business activities, public commercial services and market activities.

In accordance with the provisions of Article 10 of the Act Amending the Transparency of Financial Relations and Maintaining Separate Accounts for Different Activities Act, in 2009 the Company had to provide to the granting authority the criteria for the allocation of revenue and expenses for the performance of public commercial services, which must be verified by the auditors. Objective entitlement of these criteria was verified by the audit firms Ernst & Young and ABC Revizija, who have been appointed by the Ministry of Transport of the Republic of Slovenia. Both have issued unqualified audit opinions with regard to these criteria, on the basis of which the Company expects the Ministry to provide its assent to the proposed criteria.

Operating expenses of public commercial services of Luka Koper, d.d. for 2010

	Direct expenses PCS €	Direct expenses of other services €	Share of direct expenses of PSC %	Indirect expenses of all services €	Indirect expenses PCS €	**Total PCS €**	Indirect expenses not in burden of PCS €	Total other services €	Total Luka Koper, d.d. €
I. OPERATING COSTS	2,648,651	54,305,469	4.65	47,544,331	2,661,422	**5,310,074**	815,668	101,871,255	107,181,329
COSTS OF MATERIALS	227	6,105,437	—	2,244,531	84	**311**	15,096	8,364,980	8,365,291
COSTS OF SERVICES	2,301,955	15,097,252	13.23	18,342,187	2,426,714	**4,728,669**	80,128	31,092,853	35,821,522
DEPRECIATION AND AMORTIZATION	164,164	18,165,445	—	6,086,017	54,508	**218,672**	695,261	24,892,216	25,110,888
LABOUR COSTS	182,305	14,937,335	—	14,938,233	180,117	**362,422**	—	29,695,450	30,057,872
OTHER OPERATING EXPENSES	—	—	—	6,124,849	—	**—**	25,183	6,150,032	6,150,032
PROVISIONS								(251,369)	(251,369)
REVALUATION OPERATING EXPEN-SES								1,927,093	1,927,093

Operating expenses of public commercial services of Luka Koper, d.d. for 2009

	Direct expenses PCS €	Direct expenses of other services €	Share of direct expenses of PSC %	Indirect expenses of all services €	Indirect expenses PCS €	**Total PCS €**	Indirect expenses not in burden of PCS €	Total other services €	Total Luka Koper, d.d. €
I. OPERATING COSTS	1,620,934	48,143,706	3.26	50,485,213	1,898,527	**3,519,462**	701,625	113,537,677	117,057,139
COSTS OF MATERIALS	39,403	4,934,460	0.79	2,409,437	19,088	**58,491**	12,691	7,337,501	7,395,992
COSTS OF SERVICES	1,456,001	13,780,842	9.56	18,441,975	1,762,277	**3,218,278**	102,044	30,562,584	33,780,862
DEPRECIATION AND AMORTIZATION	18,213	14,629,773	0.12	5,924,605	7,367	**25,580**	562,668	21,109,678	21,135,258
LABOUR COSTS	107,317	14,798,631	0.72	15,250,294	109,796	**217,113**	—	29,939,129	30,156,242
OTHER OPERATING EXPENSES	—	—	—	8,458,901	—	**—**	24,222	8,483,124	8,483,124
PROVISIONS								2,775,425	2,775,425
REVALUATION OPERATING EXPEN-SES								13,330,236	13,330,236

Note 2 – Provisions

Pursuant to the provisions of paragraph 9.3 of the Concession Agreement, the surplus of revenue from port dues over the costs was retained to cover the costs of ordinary maintenance in the future years, in the amount of €2,466,304. In 2010, provisions decreased by €59,885.

STATEMENT OF DISTRIBUTABLE PROFIT / ACCUMULATED LOSS

Distributable profit/accumulated loss in 2010

In 2010 Luka Koper, d.d. incurred a net loss of €2,431,887.92. According to the decision of the Management Board, upon compiling the financial statements, the net loss was settled through the release of other revenue reserves which were formed in previous periods. Total distributable profit for 2010 equals to zero.

	2010/€	2009/€
TOTAL DISTRIBUTABLE PROFIT/(LOSS)	**—**	**—**
RELEASE OF OTHER REVENUE RESERVES	2,431,887.92	59,191,002.63
NET PROFIT/(LOSS) FOR THE YEAR	(2,431,887.92)	(59,191,002.63)
RETAINED EARNINGS	—	—

The dividend policy of Luka Koper, d.d. is designed to balance the expectations of shareholders for dividend income and the Company's need for financing of ongoing investments. Due to the loss incurred in 2010 there are no dividend payments planned. However, in the following years the Company will dedicate up to one third of its net profit for dividend payments to its shareholders, considering the planned investments in port facilities and other equipment.

INDEPENDENT AUDITOR'S REPORT

ERNST & YOUNG

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Luka Koper d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of Luka Koper d.d., which comprise the statement of financial position as at December 31, 2010, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Luka Koper d.d., as of December 31, 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited financial statements.

Ljubljana, April 12, 2011

Janez Uranič
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Dunajska 111, Ljubljana

ERNST & YOUNG
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Lidija Šinkovec
Certified Auditor

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT BOARD

The Members of the Management Board of Luka Koper, d.d., confirm that the Annual Report of the Luka Koper Group and Luka Koper, d.d., and its constituent parts, including the corporate governance statement, have been compiled and published in accordance with the Companies Act and International Financial Reporting Standards, as adopted by the EU.

The Management Board is responsible for the preparation of the Annual Report, including the financial statements and notes attached thereto, and for giving a true and fair appraisal of the financial position of the Luka Koper Group and Luka Koper, d.d., as of 31 December 2010 and of their financial performance for the year ended 31 December 2010.

The Management Board confirms that the financial statements of the Group and the Company have been compiled under the assumption that they are a going concern, that appropriate accounting policies were consistently applied, and that any changes to these have been disclosed.

The Management Board is also responsible for the adoption of measures to secure the assets of the Luka Koper Group and Luka Koper, d.d., and to prevent and detect fraud and other irregularities and/or illegal acts.

Members of the Management Board:

Gregor Veselko, D.Sc.,
Chairman of the Management Board

Capt. Tomaž Martin Jamnik,
Deputy Chairman of the Management Board

Marko Rems,
Member of the Management Board

Matjaž Stare
Member of the Management Board, Workers Director

Koper, 12 April 2011

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LUKA KOPER
Port of Koper