



LUKA KOPER

Annual Report **2006**

Dear Reader

This Annual Report of Luka Koper d.d. and the Luka Koper Group, encompasses information on our operations and performance in 2006, as well as accomplishments achieved over the year and objectives for 2007.

The Report provides an introduction to the activities of the Group, in which the parent company holds a pre-eminent position. Non-consolidated and consolidated financial statements are prepared in compliance with the International Financial Reporting Standards, and disclose information on both Luka Koper d.d. as well as Luka Koper Group.







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Wind Orchestra of Koper: In Concert Together

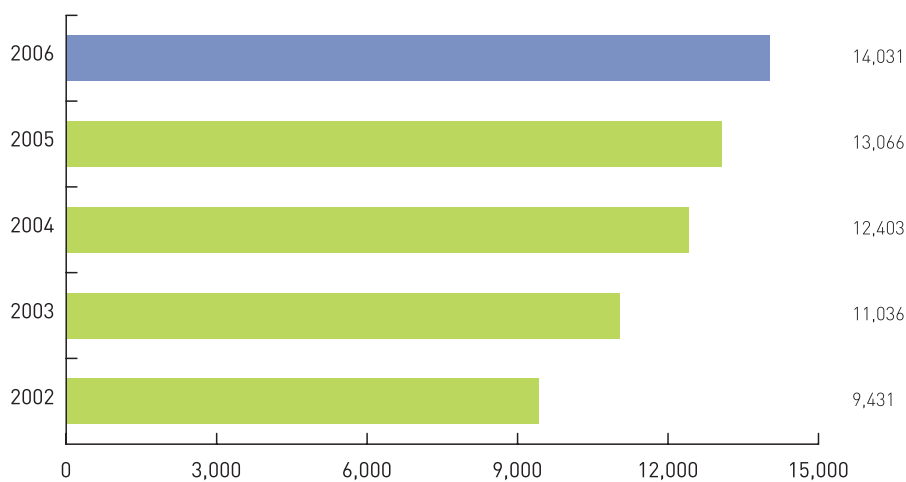
The Koper Wind Orchestra has been presenting the music of Slovene Istria for over 25 years, and we rejoice in the acclaim and awards bestowed upon its young musicians in competitions and events at home and abroad. Like Luka Koper, the ensemble reaches out and connects, providing our city and Slovenia with a window on the world.





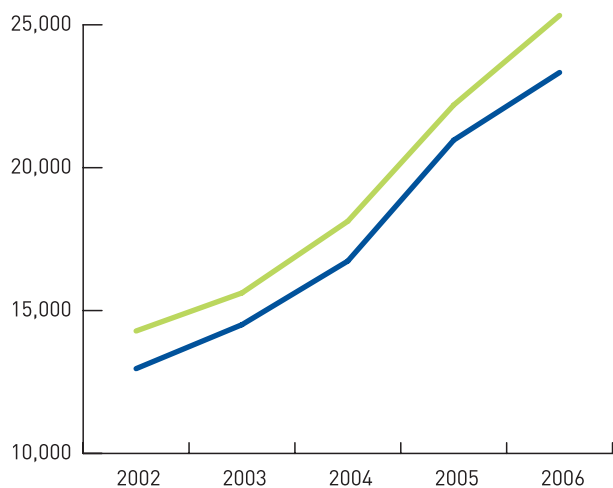
Highlights from operations

Growth in maritime throughput in the period 2002-2006 (in thousands of tonnes):

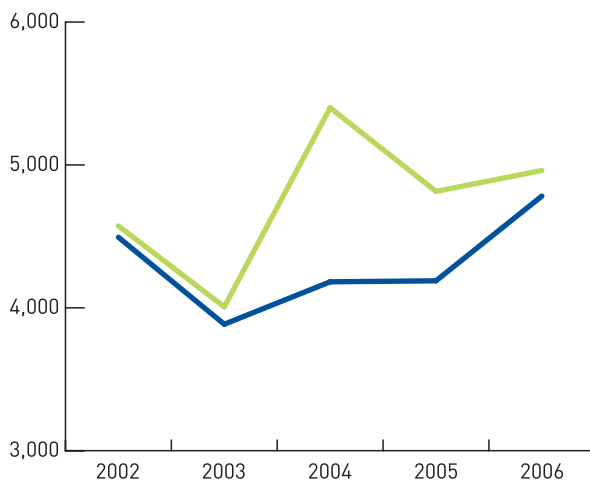


Operating revenues and net profit of the Luka Koper, d.d. and Luka Koper Group in the period 2002-2006 (in millions of SIT)

Operating revenues



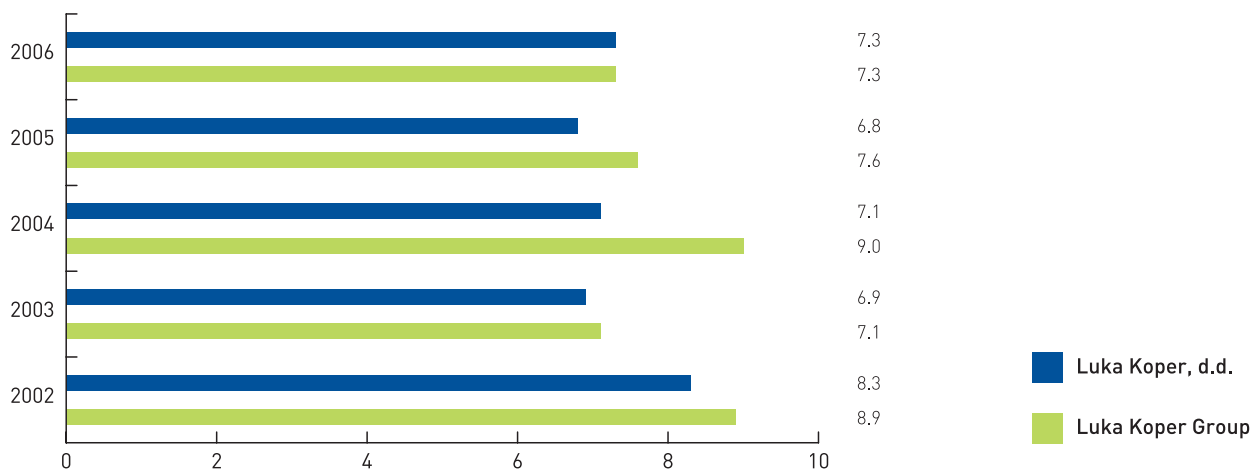
Net profit



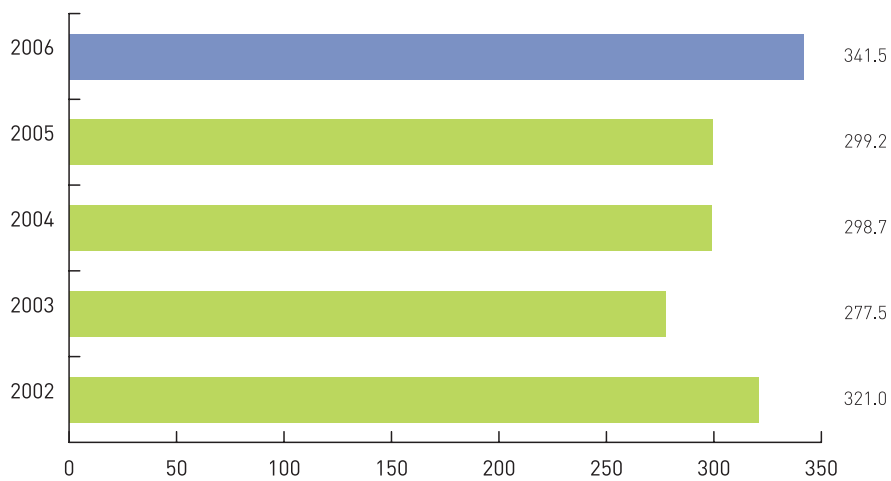
■ Luka Koper, d.d. ■ Luka Koper Group

■ Luka Koper, d.d. ■ Luka Koper Group

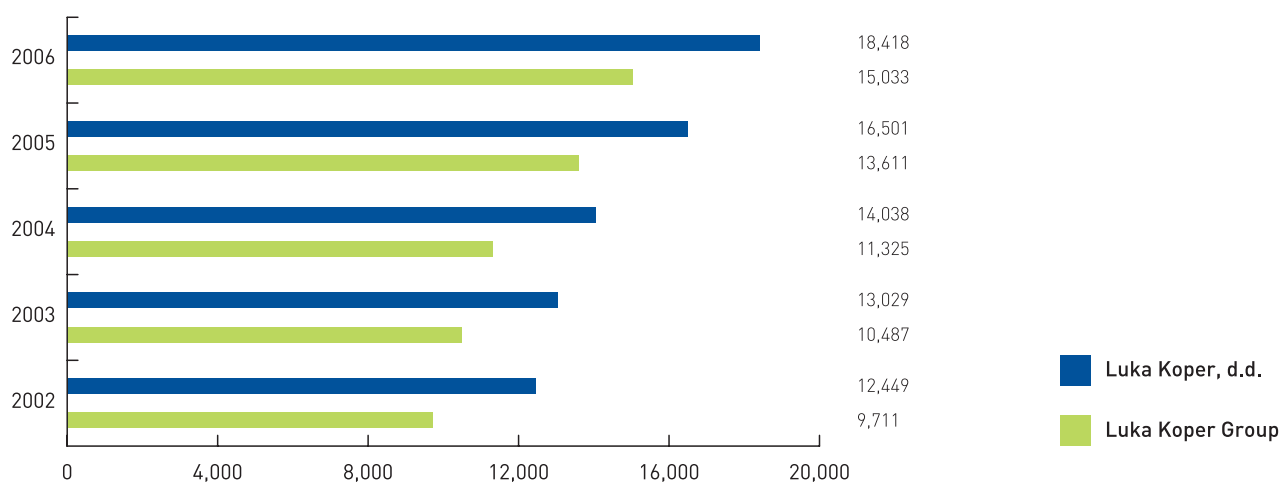
Return on equity for the Luka Koper, d.d. and Luka Koper Group in the period 2002-2006 (in %)



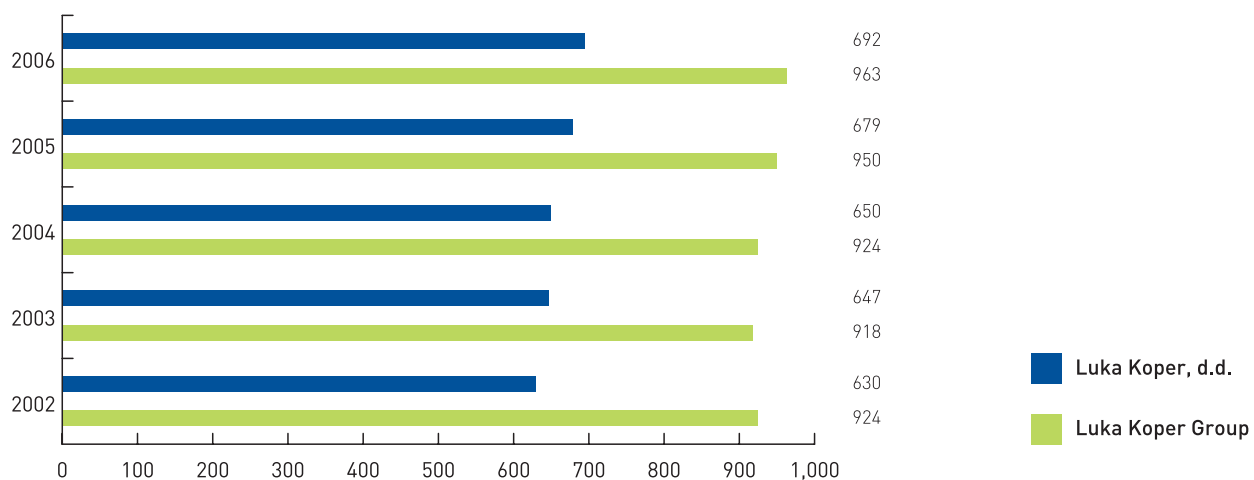
Earnings per share (in SIT)



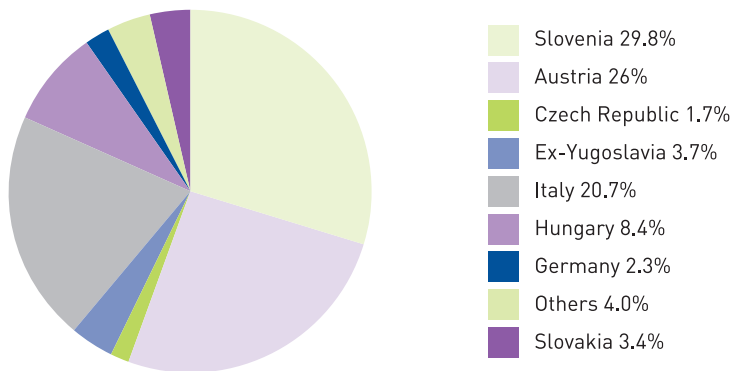
Added value per employee for the Luka Koper, d.d. and Luka Koper Group
(in thousands of SIT)



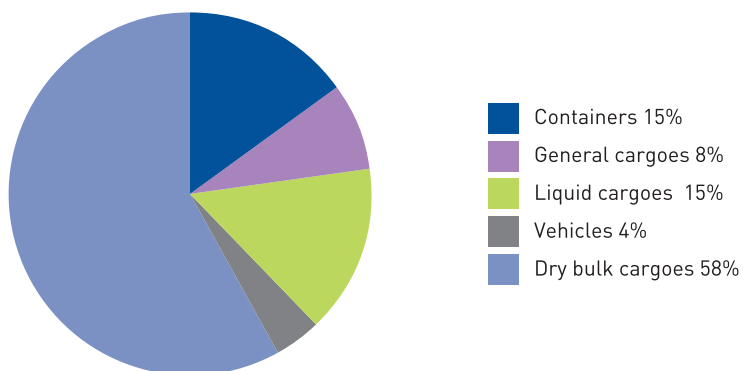
Number of employees in the Luka Koper, d.d. and Luka Koper Group
on 31 December 2006



Most important markets in 2006



Structure of cargo



Report Of The Supervisory Board

In 2006, the operations of Luka Koper, d. d. (hereinafter: Luka Koper/the Company), the parent company of the Luka Koper Group, were supervised by the Supervisory Board composed of the following members: Marko Starman, MSc, president, Peter Verlič, Phd, vice-president, Tatjana Jazbec, member, Robert Jerman, member, Metod Mezek, member, Alverino Pavletič, member, Boris Popovič, member, Marko Valentinčič, member, and Bojan Zadel, member. The Supervisory Board's activities mostly reflected the provisions of the Companies Act and the Company's Articles of Association. In its work, the Supervisory Board monitored and supervised the Company's operations while taking into account the Company's long-term interests and providing for the implementation of the 2006 business plan and the Company's strategy.

Members of the Supervisory Board held eight regular sessions (on 20 January, 6 March, 4 April, 6 June, 21 July, 15 September, 23 November and 20 December) and one correspondence session in 2006.

At its January session, the Supervisory Board adopted the 2006 business plan, which is the Company's principal annual document. The document outlined the business activities of Luka Koper and the group for 2006. The Management Board informed the Supervisory Board of the Company's operations on a quarterly basis so that the latter was able to regularly monitor the implementation of the business plan. In March, the Supervisory Board approved the Business strategy of Luka Koper for the period of up to 2015, which was adopted by the General Meeting in August. The Supervisory Board also acted in accordance with Article 22 of the Articles of Association which stipulates in its point 13 that upon the proposal by the Management Board the Supervisory Board shall adopt a decision on the Company's equity participation in domestic and foreign legal entities. It also gave consents under Article 22(15) of the Articles of Association which stipulates that the Supervisory Board shall grant subsequent approval to the Management Board for the conclusion of transactions related to investments and the purchase or sale of fixed assets, irrespective of their value, if such transactions are not included in the Company's development or business plan. In addition to its regular activities, i.e. discussing quarterly reports, taking decisions in accordance with Article 22 of the Articles of Association and approving the strategy, the Supervisory Board also addressed the following important items (in chronological order):

- approved the 2005 annual report,
- supported the Management Board's proposal on the allocation of distributable profit for 2005,
- took note of the tax inspection report,
- took note of the Information on applicable commercial contracts of PC European Energy Terminal,
- took note of the infrastructure utilisation presentation,



- took note of the Information on preparations for the euro introduction,
- took note of the Management Board's activities concerning possible equity participation or the acquisition of companies operating in the area of the Company's activities,
- took note of the Report on the measurement of dust particles and noise,
- adopted a revised plan of investments in equipment and buildings,
- took note of the Report on Luka Koper's equity participation,
- adopted the 2007 business plan.

At its last session held in December, the Supervisory Board adopted a plan for the Supervisory Board's activities in 2007 and appointed the following committees:

- audit committee,
- environment committee,
- committee for spatial issues.

Evaluation of the Supervisory Board's work

The Supervisory Board performed its function prudently, diligently and fairly, and acted to the benefit of the Company and its shareholders. The work performed by the Supervisory Board as whole was professional, independent and responsible. Decisions were taken after careful consideration of all facts and arguments, and were as a rule adopted by common consent.

Highlights from the 2006 annual report

In 2006, Luka Koper generated EUR 97.4 million (SIT 23.3 billion) in operating revenues, which is 13 percent more than in the previous year. This was partly a result of maritime throughput exceeding a record 14 million tonnes. The majority, over 90 percent of total operating revenue was generated in the European Union markets. The share of key markets has not changed significantly in recent years. The cargo handled for the Slovenian market accounts for 30 percent of the market structure and amounts to 4 million tonnes. Austria has been

traditionally the most important foreign market, followed by Italy, Hungary, former Yugoslavian states, Slovakia, Germany and the Czech Republic. Maritime throughput continues to grow and increase in volume. Total 2005 turnover was exceeded by 7 percent in 2006. This is a result of successful operations in all commodity groups. Containers, dry bulk cargoes, cars and general cargoes contributed the most to the results. Successful operations are best reflected in the net profit which was 14 percent higher than in 2005 and totalled EUR 19.95 million (SIT 4.8 billion). The professional competence and commitment of employees, and a high rate of innovations and efficiency they achieved is reflected in increased added value per employee, which totalled EUR 76.8 thousand (SIT 18.4 million) in 2006, exceeding the last year's figure by 12 percent. The asset structure is predominantly composed of non-current assets which account for 90 percent of total assets. Non-current assets are financed entirely from the long-term sources. High equity financing rate indicates that the equity's share in liabilities stands at 84 percent. This reflects a high degree of financial stability and financial strength of the Company. Current assets are twice the current liabilities, meaning that the Company is capable of financing its business cycle on its own.

Verification of the annual report

The Supervisory Board monitored the implementation of the 2006 business plan, as well as management and operations of the Company and the Group on a regular basis throughout the year. The Supervisory Board notes that most of the planned economic categories were exceeded. The Management Board supplied the Supervisory Board with all information required or requested for the performance of its activities. Contributing to the verification of the annual report was also the audit committee which focused, among other things, on the following topics: methods and subject of auditing procedures performed by the auditing company, disclosure of effects of transition to International Financial Reporting Standards carried out by Luka Koper, effect of tax reliefs claimed in accordance with the Economic Zones Act on the corporate income tax, financial discipline of customers, methods for determining distributable profit and allocation of available net profit, contractual relationship with the government and revenue and expenses arising therefrom, debt structure and methods of addressing this issue. The Supervisory Board determined that the annual report presented fairly the Company's financial position. The Supervisory Board also noted that the annual report was unambiguous and transparent and that it gave a true and fair view of the Company's and the group's operations. Against this background, the Supervisory Board had no objections to the audited annual report of Luka Koper, d.d. and the Luka Koper Group for 2006, which was submitted by the Management Board, and approved it unanimously on 28 February 2007.

Auditor's Report

The financial statements of Luka Koper and the Luka Koper Group, including the balance sheet as at 31 December 2006, the income statement, the statement of changes in equity, the cash flow statement, the summary of significant accounting policies, other explanatory notes and the business report, were audited by Deloitte revizija, d.o.o., Ljubljana, Dunajska 9. The auditing company issued an opinion that the financial statements gave a true and fair view of

the financial position of Luka Koper and the Luka Koper Group as at 31 December 2006, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union. The business report was consistent with the audited financial statements.

The Supervisory Board took note of the auditing company's report and made no comments thereon.

Proposal for the allocation of distributable profit

In 2006, Luka Koper generated SIT 4,781,578,855.35 in net profit. The Management Board and the Supervisory Board earmarked 50% of the 2006 net profit in the amount of SIT 2,390,789,427.68 for the increase of other profit reserves. The remaining portion of the net profit was allocated to distributable profit. The distributable profit has been further increased by the profit brought forward from 2005 in the amount of SIT 1,438,667,524.42 SIT. In addition, a portion of other profit reserves from previous years in the amount of SIT 2,308,196,151.14 was also allocated to distributable profit. Total distributable profit for 2006 thus amounts to SIT 6,137,653,103.24.

(in SIT)	2006	2005
Total distributable profit	6,137,653,103.24	5,988,243,661.49
Other profit reserves	2,308,196,151.14	2,308,196,151.14
Net profit for the year	2,390,789,427.68	2,094,490,404.76
Net profit brought forward from 2005	1,438,667,524.42	1,585,557,105.59


The Management Board and the Supervisory Board propose to the General Meeting to allocate the 2006 distributable profit in the amount of SIT 6,137,653,103.24 as follows:

- a portion of distributable profit in the amount of SIT 2,308,196,151.14 shall be allocated to shareholders from other profit reserves formed on the basis of equity items from previous years;
- a portion of distributable profit in the amount of SIT 2,500,000,000.00 shall be allocated to other profit reserves, namely, the net profit brought forward from 2005 in the amount of SIT 1,438,667,524.42 and the net profit from 2006 in the amount of SIT 1,061,332,475.58;
- the allocation of the remaining portion of distributable profit (net profit for the year 2006) in the amount of SIT 1,329,456,952.10 shall be decided in the upcoming financial years.

The decision by the Supervisory Board to support the Management Board's proposal considers the goals included in Luka Koper's strategy for the period of up to 2015, as well as shareholders' interest to increase the share value in the long-term.

The Supervisory Board proposes that, taking into account the Annual report of Luka Koper, d.d. and of the Luka Koper Group for 2006, the auditor's report and this report, the General Meeting give a discharge to the Management Board and the Supervisory Board.

This report of the Supervisory Board has been prepared in accordance with Article 282 of the Companies Act and is intended for the shareholders of Luka Koper.


Marko Starman, MSc
president of the Supervisory Board

Esteemed shareholders, business partners, investors

I am pleased to inform you that the Luka Koper Group concluded yet another successful year. Last year we spoke of embarking on a new development cycle, which now became a reality. We began diligently and determinedly implementing the Business strategy adopted in spring 2006.

Our successful operations prove that we are a trustworthy partner to shareholders, investors and to the local community. Last year, the Group generated SIT 25.3 billion in operating revenues, a 14 percent increase over the previous year. All companies in the Group also ended the year with a profit. The 2006 net profit of the parent company Luka Koper, d.d. totalled SIT 4.78 billion, which is 14 percent more as compared to the previous year. In 2006, the parent company earmarked SIT 5.4 billion for investments in technological modernisation of plant and equipment and for increasing the capacity and facilitating the development of port infrastructure. The Company built, among other things, storage facilities with capacity of 1,400 pallets for perishable goods, thereby increasing the capacity of the Fruit terminal by 10 percent. At Pier II, the construction of a new general cargo warehouse measuring 10,800 m² was completed. The Company continued the modernisation of handling equipment, thereby increasing efficiency, reducing energy consumption and meeting the requirements of the environment protection standards (e.g. purchase of a transtainer for container handling, purchase of two state-of-the-art stevedoring machines used at the Energy terminal).

By having the shares of Luka Koper listed on the prime market of the Ljubljana Stock Exchange, the Company received recognition for many years of successful performance. The Company thus became a formal member of the group of the best Slovenian companies that meet high standards relating to orderliness of operations and compliance with corporate governance principles.



Employees are surely a key factor to our success. Their professional competence, commitment and efficiency are reflected in a high rate of innovations, good operating performance and external reputation of the Luka Koper Group. The fact that we are regarded as one of the most respected companies also at the European level is confirmed by being placed among the finalists for the business excellence award of the European foundation for quality management EFQM.

This year, the Company celebrates 50 years of its existence. Small local port evolved into an important international player on the European maritime map, handling more cargo every year. This is yet another confirmation that Koper represents one of the key entry points to the markets of European countries. Considering that in 2006 the Company handled 21 percent more containers than in the previous year, our performance exceeds global trends pointing towards a rise in the containerisation of goods. We are especially proud of setting a new milestone as regards cooperation with Hungary, as we exceeded, for the first time after 1995, the million-tonne mark of cargo handled. Thus we became the second most important port for the Hungarian market.

The globalisation processes are also opening up new market opportunities for our company. Additional marketing and promotional activities have been directed to the markets with significant potential that has not yet been fully tapped. A conclusion of several agreements with long-term relevance represented an important step towards increased visibility of the Port of Koper. Contracts were signed with the company Glovis, the largest logistics company in South Korea, which will make use of our port in operations relating to new car factories in Slovakia and the Czech Republic. We have also concluded concrete cooperation agreements with the Malaysian Port of Klang and several Israeli ports.

New businesses that we entered into and partnerships with foreign ports require that we provide for appropriate spatial and logistic facilities. We are aware of the port's limitations in terms of area, which is why we decided last year to purchase new storage and other logistics facilities in Sežana. We have thereby acquired more land to extend our services to clients at a location where many traffic and goods flows intersect. In the upcoming years, the Sežana terminal will be developed into a large logistics centre fitted out with modern equipment. This is the only way to capitalise on our competitive advantage and achieve maximum efficiency in all we do.

Development and expansion of our activities can only be achieved if supported by the local community, which is why we are establishing constructive dialogue and cooperation with the Municipality of Koper and the wider community. Joint projects contributing to the development and improved quality of living are a proof of our partnership. In 2006, we completed a project of constructing a northern bypass road, which is a major benefit for the city of Koper, that required effective coordination of activities between the company Luka Koper and the Municipality of Koper. By setting up a sports and recreational park at the location of Sveta Katarina in cooperation with the local community of Ankaran, we will prove once again that we do care for the local community in which we operate.

Our development will continue

Over the period of the next ten years, our development will be based on four fundamental orientations described in the Business strategy: to establish ourselves as a recognised logistics services coordinator, to improve efficiency of the port system and distribution centre, to ensure successful long-term operations, and to operate in compliance with the principles of sustainable development.

The jubilee year is also a year of many challenges and activities. Ambitious goals have been set to achieve growth in cargo throughput, improve the services structure, and generate even better financial results. We will begin by constructing the biggest parking garage in the country, and continue by expanding our activities to the hinterland terminals and by activating the company Adria transport, which will provide railway transportation services.

I expect that by the end of this year a national site design for the Port of Koper area will have been adopted, encompassing all necessary infrastructure projects and facilities needed for our development. The process of preparation and adoption shows that port, logistics and related activities represent the pillars of the Slovenian economy.

Based on the national site design, we will start implementing projects, which are necessary for strengthening our competitiveness, in the beginning of 2008. One of more demanding projects will be the extension of the existing piers and the beginning of the construction of the third pier, which is required in order to cover the needs related to the increasing number of containers handled. We will also finish the construction of entrance to the port with the new truck terminal, relieving the burden on the roads towards the city of Koper.

We will not run short of ambitious plans and, encouraged by your trust, I am confident we will be able to realise them as well.

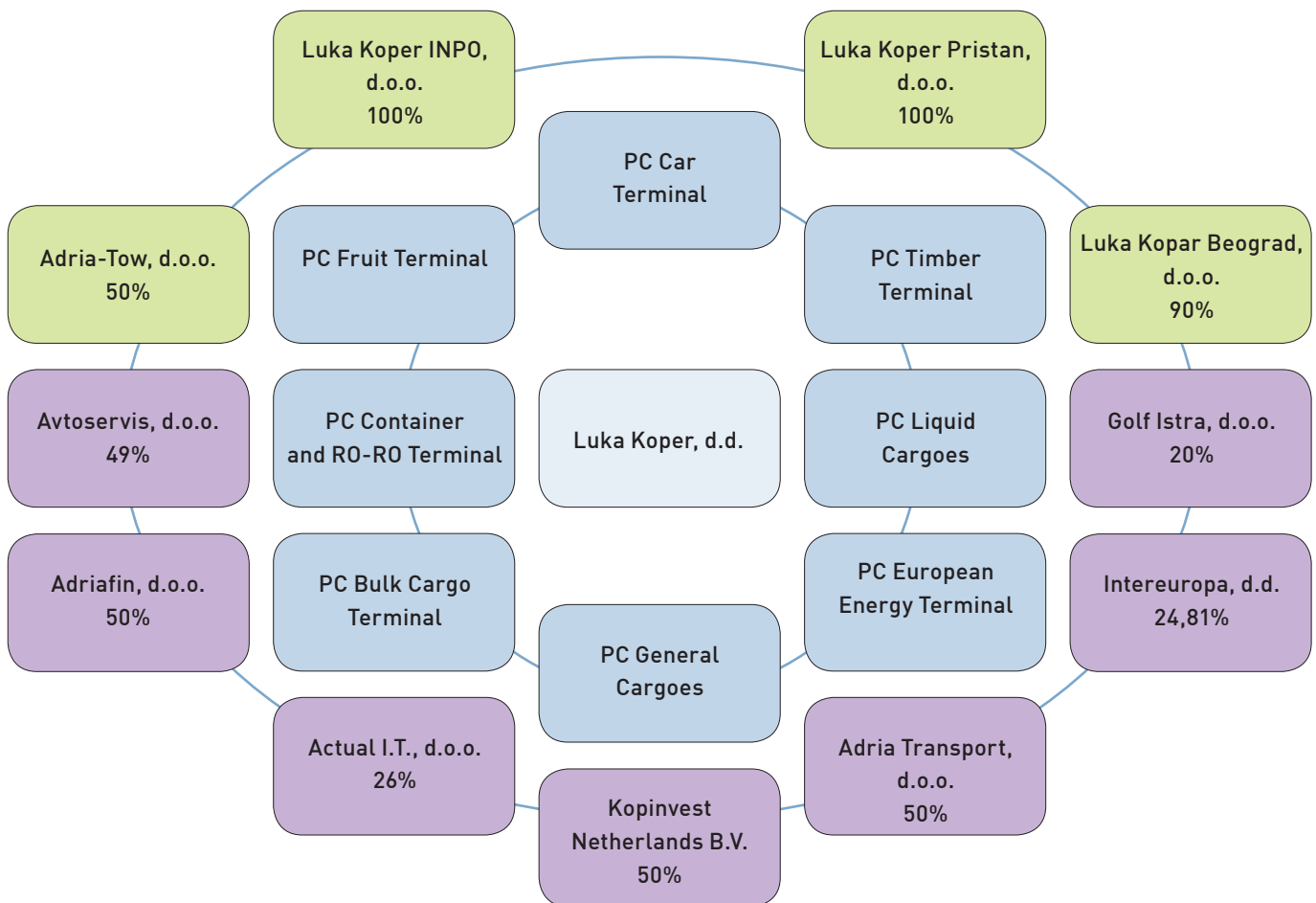
Robert Časar, LLB
President of the Management Board



Company profile

Company name	Luka Koper, port and logistic 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
Tax number	SI 89190033
Share capital	SIT 14,000,000,000 (EUR 58,420,964.78)
Number of shares	14,000,000 (of which 7,140,000 are ordinary registered shares and 6,860,000 are participating preference shares with limited voting rights)
Nominal value of shares of both classes	SIT 1000
Quotation of shares	Ljubljanska borza, d.d., first quotation (the primer market)
Share symbol	LKPG
President of the Management Board	Robert Časar, LLB
President of the Supervisory Board	Marko Starman, Msc., LLM
Number of companies in the Luka Koper Group	5
Principal activity of Luka Koper, d.d.	Services company; port and logistics system
Activities performed in the Luka Koper Group	Various service activities

Organisational structure of the Luka Koper Group



Luka Koper as a port system:

- has 11 specialised terminals for various types of cargo that are fitted out with modern equipment,
- manages the free-trade zone, which covers the entire area of the Port of Koper,
- has 30 hectares of covered warehouses and 95 hectares of open warehouse space on 255 hectares of land, and
- offers 26 ship moorings on 3,134 metres of shore alongside 173 hectares of sea area.

The Company's principal activity is carried out by 8 profit centres (PCs) organised according to the goods or cargo they handle.

The Luka Koper Group also includes four subsidiary companies:

- Luka Koper INPO, d.o.o. (fully owned by Luka Koper, d.d.)
- Luka Koper Pristan, d.o.o. (fully owned by Luka Koper, d.d.)
- Luka Kopar Beograd, d.o.o. (90 percent owned by Luka Koper, d.d.)
- Adria-Tow, d.o.o. (50 percent owned by Luka Koper, d.d.)

Corporate governance report

Statement of compliance with the Corporate Governance Code

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

The pertinent Articles of Association of Luka Koper d.d. do not allow for any categories of approved capital by way of which the Management could increase the Company's share capital. In 2006, the Company had no basis for a contingent increase in the share capital.

The Company observes the Corporate Governance Code

The Corporate Governance Code for Joint Stock Companies was jointly phrased and adopted by the Ljubljana Stock Exchange, Inc., Ljubljana, the Association of Supervisory Board Members of Slovenia, and the Managers' Association of Slovenia on 18 March 2004, agreeing on adopting its amendments on 14 December 2005 and 5 February 2007.

The Corporate Governance Code is available on the website of the Ljubljana Stock Exchange (www.ljse.si).

The Management Board of the parent company of Luka Koper, d.d. adopted the following statement:

During the period from the latest publication of its Statement of compliance with the Code, on 3 April 2006, to the publication of a summary 2006 Annual Report, the Management Board observed the provisions of the Corporate Governance Code for Joint Stock Companies, with the exception of certain digressions relating to individual items of the Code.

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



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

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

The statement of conformity with the Corporate Governance Code was signed by the Management Board and the Supervisory Board.

Public offering prospectus

The Company regularly publishes all changes in its prospectus for public offering. Information on the ten largest shareholders on the last day of 2006 and their shareholdings, as well as data on the total payments, reimbursements and other benefits of the Management Board members are published in the summary 2006 Annual Report.

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

The Management Board established that a special internal act governing restrictions for trading in the Company's shares was not required.

General Meeting of shareholders

As a rule, the parent company's General Meeting of shareholders is convened once a year. The most important powers of the General Meeting include approving proposals for the allocation of distributable net profit, giving a discharge to the members of the Supervisory Board and the Management Board, and relieving members of the Supervisory Board of their duties and appointing them.

In 2006, the Management Board convened one General Meeting of Luka Koper, d.d.'s shareholders. At its 12th session held on 22 August 2006, the General Meeting supported the proposal of the Management and

the Supervisory Board concerning the allocation of distributable profit, adopted a resolution that as from 1 January 2006 the annual reports of Luka Koper, d.d. shall be prepared in accordance with International Financial Reporting Standards, and adopted the amendments to the Articles of Associations relating to the introduction of no-par value shares and to the publication of information relevant to shareholders.

The General Meeting gave consent to the Luka Koper Business strategy for the period up to 2015 but decided not to give a discharge for 2005 to the Management Board with term of office until 25 July 2005 and to the Supervisory Board with term of office until 7 July 2005. The General Meeting did, however, adopt a resolution to give to the Management Board with term of office from 25 July 2005 and to the Supervisory Board with term of office from 7 July 2005 a discharge for 2005, which was later subject to the contesting action.

Supervisory Board

The Supervisory Board of the parent company is composed of nine members, of which six are representatives of the shareholders, while three represent the employees:

- Marko Starman, Msc, representative of the Republic of Slovenia, president of the Supervisory Board
- Peter Verlič, Phd, representative of the Republic of Slovenia, deputy president of the Supervisory Board
- Tatjana Jazbec, representative of the Luka Koper employees, member of the Supervisory Board
- Robert Jerman, representative of the Luka Koper employees, member of the Supervisory Board
- Metod Mezek, representative of small shareholders of Luka Koper, member of the Supervisory Board
- Alverino Pavletič, representative of the Luka Koper employees, member of the Supervisory Board
- Boris Popovič, representative of the Municipality of Koper, member of the Supervisory Board
- Marko Valentinčič, representative of the Funds of the Republic of Slovenia, member of the Supervisory Board
- Bojan Zadel, representative of the Republic of Slovenia, member of the Supervisory Board

The Supervisory Board meets as the need arises, but at least once in every quarter.

The principal powers of the Supervisory Board include:

- supervising the conduct of the Company's business operations,
- examining and approving the annual report and the proposal for the allocation of distributable profit,
- appointing the Management Board of the Company and relieving its members of their duties,
- deciding on the establishment of business units within the country and abroad and on the Company's equity participations in

- corporate entities in the country and abroad,
- giving consent to the Management Board for the conclusion of all transactions with value exceeding five percent of the Company's share capital.

The functioning of the Supervisory Board is defined in more detail in its Rules of Procedure.

Management Board

The Management Board has four members:

- Robert Časar, president of the Management Board
- Aldo Babič, Msc, deputy president of the Management Board
- Marjan Babič, Msc, member of the Management Board
- Pavle Krumenaker, employee director

At its 12th regular session, acting on the unanimous proposal of the Management Board adopted on 6 June 2006, the Supervisory Board adopted a resolution to relieve Marjan Babič, Msc, of his duties of deputy president of the Management Board and appointed Aldo Babič, Msc, to this position. On the same day, Marjan Babič, Msc, was appointed member of the Management Board. The Management Board decided to take this action due to the significance of the fields covered by the aforementioned members, as well as to strengthen the role of marketing, in particular, in foreign markets.

The work of the Management Board is governed by the Rules of Procedure. The president of the Management Board represents and acts on behalf of the public limited company independently and without limitations. In his absence, this task is performed by the deputy.

Each member of the Management Board represents and acts on behalf of the Company within his/her area of responsibility, and is competent and responsible for issuing instructions, managing, organising, coordinating and supervising business operations and the conclusion of business transactions.

Management of subsidiary companies

Company	Director
Luka Koper INPO, d.o.o	Iztok Faganeli
Luka Koper Pristan, d.o.o.	Darko Grgič
Adria-Tow, d.o.o.	Robert Gerk
Luka Kopar Beograd, d.o.o.*	

*Dormant company

The operations of subsidiary companies are supervised by their respective General Meetings, as provided in the contracts of members. Among other things, General Meetings of subsidiary companies approve business plans, adopt resolutions on the allocation of distributable profit, appoint directors and relieve them of their duties.

History of Luka Koper

In 2007, the company Luka Koper celebrates 50 year of its existence. In its half-century history, a small company evolved into an important player on the Adriatic and European maritime market. Each year, the Port of Koper, which is under our management, handles more than 14 million tonnes of cargo that is being shipped to European countries and elsewhere all over the world.

50 years of history

First decade: The Port of Koper was established in 1957. In the next year, the first transoceanic ship Gorica was moored. In 1961, the Company was given its existing name, and in 1967, the construction of the railway connection to Koper was completed, which was one of key factors enabling rapid development of the Port of Koper.

Second decade: The Company began developing and establishing contacts with important players on the maritime market. In 1974, the first regular container line for the Mediterranean was established.

Third decade: New facilities were erected (container terminal, silo, etc.) and the infrastructure, which was important for further development, was constructed.

Fourth decade: The Company was privatised and transformed into a public limited company and the subsidiary companies complementing the Group's services were established. The Company was becoming increasingly aware of the importance of environment protection and of close contacts with the local community. Our operations were developing in line with the requirements of ISO 9002 and 14001 standards.

Fifth decade: The Port of Koper developed even further. The Company made a lot of investments in infrastructure, environment protection and cooperation with the local and wider community. We based our operations on a business excellence model, while throughput grew at constant rates and kept breaking records year after year.

Sixth decade: Our plans for the future rest on a clearly laid out business strategy for the period up to 2015 that the Company adopted in 2006.

Luka Koper Port Fire Brigade: Safety and Protection Together

As Slovenia's maritime gateway to the world, Koper plays a very significant role in international trade; and as the gatekeeper of this interface with the oceans, Luka Koper is responsible for dealing with any threats or hazards that may impact it. But it's not merely about safety at sea, but also - crucially - the safety of all operations and people within the port. Thus Luka Koper's professionally trained volunteer fire-fighter service is always on hand to ensure our well-being.







Business Report

Development strategy

The development cycle is already underway

In March 2006, the Management Board of Luka Koper, d.d. adopted a new business strategy of the public limited company Luka Koper for the period up to 2015. The strategy outlines four strategic orientations that are already being implemented.

1st Strategic orientation: To remain a recognised coordinator of logistics services

- Compared to 2005, the volume of cargo handled rose 7 percent.
- By exceeding 14 million tonnes, throughput at the end of the year reached another record value.
- Our operations are being expanded to foreign markets. Of particular interest are the markets in Far East and Northern Africa (construction of terminals in Egypt).

Plans for 2007

- To increase throughput and further improve the structure of services by increasing the share of cargoes with higher added value.
- To provide for growth in the volume of physical operations at most terminals. In relative terms, the volume of fruit cargo handling will increase the most.
- To expand the volume of port and logistics services.
- To adapt the scope of services offered to the needs and requests of our clients.
- To pursue the goal of increasing profits and effective control of costs. Our goal is to achieve the net profit to net operating revenues ratio of 19 percent and to generate an added value in the amount of SIT 13.3 billion for Luka Koper.
- The company Adria Transport that was established in cooperation with our Austrian partner will enter into operation. It will deal mainly with rail cargo transport.

2nd Strategic orientation: To develop an efficient port system and distribution centre

- In the coming years, we will build the industrial zone near Sežana.
- The national site design for the Port of Koper is already being intensively developed. It will provide us with opportunities to construct new infrastructure that is relevant to our development.
- SIT 7.2 billion Luka Koper Group has invested in port facilities.

Plans for 2007

- We will invest approximately SIT 19.8 billion in the modernisation and enlargement of port facilities.
- A construction of parking garage with capacity of 12,000 cars will be initiated.

3rd Strategic orientation: To preserve a long-term successful business system

- We were placed among the finalists for the European business excellence award EFQM.
- In December 2006, the share of Luka Koper was transferred to the prime market of the Ljubljana Stock Exchange.

Plans for 2007

- We will continue to implement our policy of planning and constant development of human resources potentials.
- We will look into ways of improving utilisation of human resources and improving allocation of workers to the Company's core work process.
- We will continue to support employees by helping them solve their housing and social issues. SIT 86 million will be earmarked for this purpose.
- We will focus on developing a harmonised purchase policy. We will continue to organise "Purchasing conferences".
- Excellence will be incorporated into the entire Luka Koper Group. The findings of the business excellence reviewers will be included into the management system, thereby improving the level that was already achieved.

4th Strategic orientation: To provide for sustainable development and close cooperation with the community

- Validation of the environmental statement, initiation of procedures for obtaining the EMAS certificate, operating in accordance with ISO standards.
- Good cooperation with the local community (construction of a northern bypass road, development of passenger terminal, etc.).
- SIT 117 million was earmarked for sponsorships and donations to educational, humanitarian and cultural activities.

Plans for 2007

- To reduce a share of the Luka Koper Group's waste that is not collected separately by 1 percent (to 25 percent).
- To gradually reduce emission thresholds and bring them into line with European legislation.
- To obtain a concession for engaging in a mandatory economic public service in the field of maintenance of aquatic and offshore land for the entire Slovenian sea.

Our vision, mission and values

We have a vision

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

We have a mission

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

We have values

Our operations are based on the following values:

- knowledge,
- enterprising spirit,
- partnership,
- respect, and
- responsibility.

These values are means for implementing our strategy in key business segments.

Business policy

Considering its fundamental values and strategic orientations, the Luka Koper Group implements its development policy via five key areas:

- marketing and development of services offered,
- organisation and management of human resources,
- infrastructure and technological development,
- management of financial assets, and
- attitude towards broader society.

Key opportunities

Development opportunities as perceived by the Company relate to:

- geographical position of the Port of Koper,
- increased international trade as regards the flow of goods passing through the Port of Koper,
- stable port activity and possibilities for development of services relating to the support logistics solutions,
- development of hinterland activities relating to goods and distribution, and
- cooperation with neighbouring ports.

Current situation in the sector

The transport and logistics sector is marked by intense growth. For many years, the trends pointing towards increased containerisation, multimodality, larger vessels, fewer stays in ports and improved productivity of terminals have been evident.

The sector is also witnessing an increasing volume of trade, both on the European and global scale. The Adriatic-Baltic Landbridge represents an important project for our port, considering emerging overseas trade with Far East. Due to congestion of North European ports, which in consequence leads to bottlenecks, the European Community supports the South European transport route.

A major trend in this sector is also the redirection of goods transport from roads to more environment-friendly means of transport, i.e. railways and motorways of the sea. These are a part of the trans-European traffic network and represent one of the most important projects of the European Union in the period up to 2020.

The sector is also marked by shifts in negotiating positions, meaning that the shipping companies are participating more actively in the management of container logistics. Privatisation and globalisation are also linked to the appearance of ownership, while in the hinterland land-based terminals are being established that take over certain operations from ports.

The transport and logistics sector is also witnessing shifts in the field of environmental and safety standards that are becoming more stringent, while people are more informed and environmentally aware.

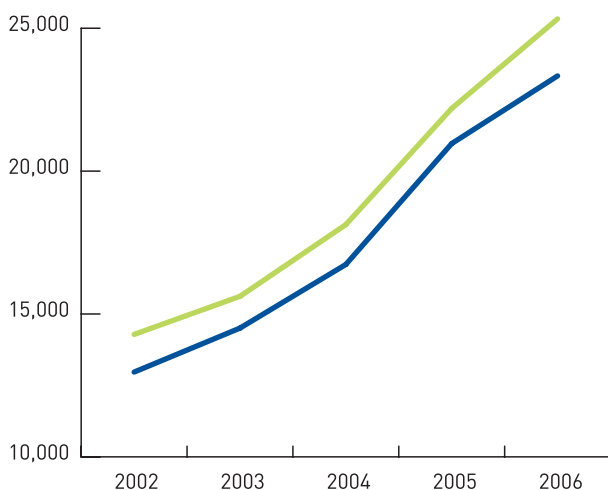
Business performance analysis

Owing to the fact that revenues of the parent company account for 92 percent of overall revenues of the Luka Koper Group and considering that the impact of the parent company's items is strongly reflected in operations of the Luka Koper Group, the outline of the Luka Koper Group operations will also include the operations of the parent company.

Operations of the Luka Koper Group

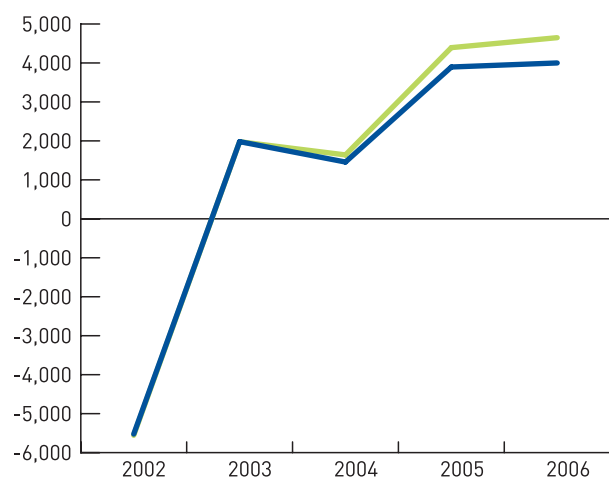
Comparison of growth in operating revenues and operating profit between 2002 and 2006 (in millions of SIT)

Operating revenue



■ Luka Koper, d.d. ■ Luka Koper Group

Operating profit



■ Luka Koper, d.d. ■ Luka Koper Group

Operating revenues

The Group generated SIT 25.3 billion in operating revenues, which is 14 percent more than in 2005. The parent company accounted for SIT 23.3 billion of operating revenues, a 13 percent increase over the previous year. This was partly a result of a record maritime throughput that stood at 14 million tonnes. Most operating revenues (77.6 percent) were generated in the foreign markets, mostly in the European Union.

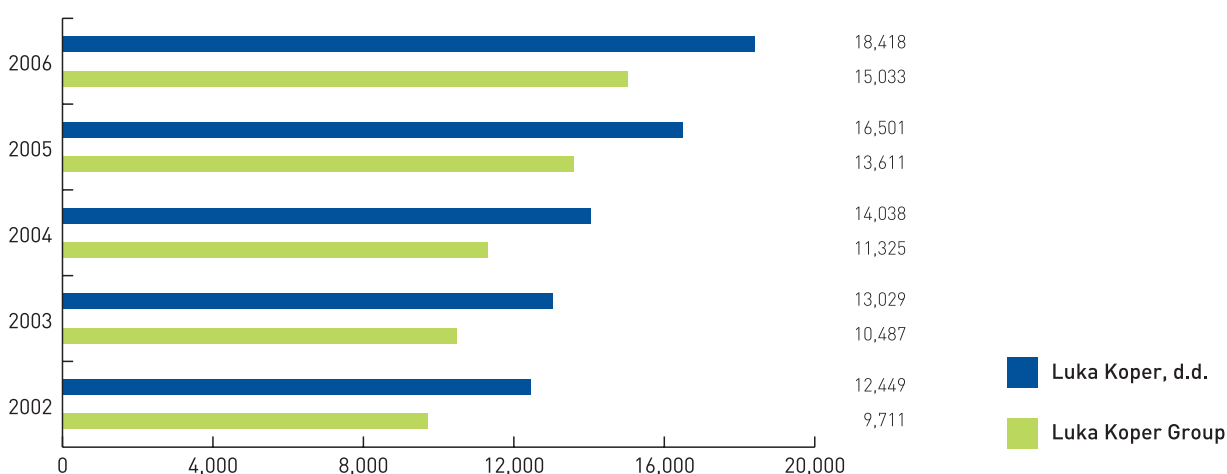
The operating revenues disclosed were also influenced by revenues from sales of fixed assets in the amount of SIT 128 million and other revenues (vessels loaded/unloaded ahead of plan) related to products and services totalling SIT 600 million.

Added value per employee

In 2006, the Luka Koper Group generated SIT 15 million of added value per employee, which is 10 percent more than in 2005. In comparison to the Group, the parent company's added value per employee was higher by 23 percent.

In total, added value per employee stood at SIT 14.5 billion, exceeding the 2005 value by 12 percent.

Growth of added value per employee between 2002 and 2006 (in thousands of SIT)



Efficiency and added value per employee

RATIO / YEAR	2002		2003		2004		2005		2006	
	Luka Koper	The Group	Luka Koper	The Group	Luka Koper	The Group	Luka Koper	The Group	Luka Koper	The Group
Operating efficiency ratio*	1.12	1.13	1.16	1.15	1.10	1.10	1.23	1.25	1.21	1.22
Total efficiency ratio	1.25	1.23	1.30	1.28	1.30	1.35	1.29	1.31	1.27	1.26
Added value per employee (in thousands of SIT)	12,449	9,711	13,029	10,487	14,038	11,325	16,501	13,611	18,418	15,033

* With a view to providing a realistic presentation, the 2002 revaluation operating expenses of tangible assets have been excluded from the data used to calculate the operating efficiency ratio.

The operating efficiency ratio shows only the relation between operating revenues and expenses, and reveals the operating revenues generated by the Company per 1 tolar of operating expenses.

The total efficiency ratio discloses the ratio between the total revenues and expenses. A ratio value above one indicates the intensity of profit generation.

Due to higher operating costs and lower financial revenues than in 2005, the total efficiency ratio was lower when compared to 2005.

Both ratios show the operating efficiency provided, however, that the Company actually disclosed some level of net profit. On the other hand, growth in added value was mostly a result of increased operating revenues recorded in 2006.

Operating costs

Compared to the previous year, operating costs were surpassed in all cost groups and amounted to SIT 20.7 billion, which is a 16 percent increase over 2005. Costs of the parent company, which stood at SIT 19.3 billion, accounted for 93 percent of total costs.

Costs of material

Costs of electricity and fuel, which account for two thirds of the costs of material, rose significantly. Handling activities consume most electricity. Compared to 2005, 6 percent more electricity was consumed, meaning that total electricity consumption amounted to 22 million kWh. The price of electricity did not change substantially, while on the other hand motor fuel consumption rose markedly. In 2006, costs of motor fuel stood at SIT 578 million, which is 26 percent more than in 2005. Increased consumption is a result of increased cargo handling activities, increased occupation of warehouse facilities and increased number of tows carried out by tugboats.

Costs of services

Costs of services were characterised by an increase in maintenance costs, costs of transport services and costs of suppliers relating to provision of port services.

Maintenance costs that stood at SIT 1.9 billion rose 26 percent. This increase is partly a result of higher price items and used equipment. The Company's depreciation rates are the same or lower as those prescribed for tax purposes.

Costs of transport services (SIT 861 million) rose 41 percent, mostly in relation to transport of fruit and vegetables arriving from the Middle East countries to the countries of Central and Western Europe, and slightly due to transport of coal to the Italian market.

Costs of subcontractors participating in the performance of port services amounted in 2006 to SIT 2 billion, an increase of 17 percent over 2005. In addition to individual increases in prices of these services, the scope of work performed by the workforce rose by a quarter.

Costs of rents include rental of operational shores and land, as provided by the lease contract concluded with the Republic of Slovenia, which in 2006 increased by 9 percent and amounted to SIT 245 million. Other rents include rental of land for cars, warehouse facilities owned by the Slovenian Agency for Commodity Reserves, mobile machinery, etc.

SIT 121 million was **earmarked for reimbursement of business travel costs to employees and for training**, which is 30 percent more than in the previous year. 45 percent of the above amount was used for business travel reimbursement, while the remaining funds were allocated to training of employees. The purpose of employee business travel is to strengthen the Company's market position as well as to maintain the existing business relations, which is why we will focus more intensely on this segment in the future. The increase in training costs is closely related to our recruitment policy, which is to have more employees with high education.

The cost group containing bank services and insurance costs includes mainly the costs of insurance that totalled SIT 91 million on the Group level. Compared to 2005, a slight reduction in the number of loss events occurred in 2006.

Costs of professional services decreased in 2006 by 24 percent, thus amounting to SIT 135 million, of which SIT 8 million was paid for employee health checks and SIT 21 million for expert witnesses. Other professional services include market studies, environmental studies, etc.

In order **to strengthen the visibility and the Luka Koper brand**, SIT 181 million was earmarked for fairs, advertising and entertainment, which is 28 percent more than in 2005. Of the above amount, SIT 108 million was used for trades and entertainment, while SIT 73 million was used for sponsorship contributions. We have supported the Olympic Committee of Slovenia, Football Club Koper, Volleyball Club Koper, Slovenian Tennis Association, Rowing Club Koper, etc.

Costs of other services that stood at SIT 1.3 billion decreased 5 percent in comparison to 2005. The majority of these costs (SIT 1.2 billion) was incurred by the parent company. The decrease in other costs is a result of phasing out the freight forwarding activity.

The cost group containing other services also **includes the IT support costs** that rose 13 percent, thus totalling SIT 668 million. The IT support costs rose mostly due to increasing number of users, introduction and maintenance of an application supporting the purchasing processes, and upgrade of a system supporting the marketing and operational processes. Other costs were mostly related to costs of logistics services involving transport of cars, fruit and car windshields, which totalled SIT 289 million.

Write-downs

Total depreciation/amortisation stood at SIT 3.5 billion, which is 2.6 percent more than in the previous year. The costs involving depreciation of investment property are monitored separately.

The 2006 depreciation rates remained unchanged relative to the previous year.

Labour costs

In 2006, labour costs of the Luka Koper Group totalled SIT 6.4 billion, an increase of 13 percent over 2005.

At year-end, there were 963 people employed in the Luka Koper Group, of which 112 were women (12 percent of all employees). In 2006, the number of employees with high education increased by 15 percent and now accounts for one fifth of all employees. The average age of employees was 42 years, while the average length of service was 20 years.

On 31 December 2006, Luka Koper, d.d. had 692 employees, 1.9 percent more than in 2005.

Since the Company has to comply with the rules governing the management of working hours, ensure implementation of safety provisions prescribed by the law, replace people that have retired, and consider the increased scope of work, it will continue hiring new people also in 2007.

The increase in labour costs is also a result of internal promotion of employees. One tenth of employees were granted promotion in the past year.

Other costs

Other costs amounted to SIT 1.8 billion, which is 45 percent more than in 2005. The parent company accounted for most of these costs.

In accordance with the principle of prudence, costs included SIT 446 million arising from a decision issued by the Ministry of Finance in relation to the payment of turnover tax for the period from 1 January 1996 to 30 September 1997 in the amount of SIT 596,135,916.54, including interest on arrears. By bringing the case before the Administrative Court of the Republic of Slovenia, Luka Koper d.d. filed an appeal against the decision received and a motion to nullify the decision on account of a breach of substantive law by invoking the right to hierarchical supervision.

Operating profit or loss

The Luka Koper Group generated SIT 4.65 billion in operating profit, an increase of 6 percent over the previous year. Operating profit of the parent company amounted to SIT 4 billion, which is three percent more as compared to 2005.

Financial revenues

The Group's total financial revenues stood in 2006 at SIT 1.46 billion, which is 35 percent less than in 2005. Interest revenues represent one third of financial revenues, which is line with the 2005 figure. Revenues from exchange rate gains decreased significantly in comparison to 2005 and amounted to SIT 75 million.

Financial expenses decreased by SIT 501 million, a decrease of 40 percent in comparison to 2005. This is reflection of the impairment of certain investments that was performed in 2005. In 2006, the exchange rate losses were halved and totalled SIT 164 million.

Net profit or loss

The Group generated SIT 5.6 billion in pre-tax profit, which is 4 percent less than in 2005. The parent company's pre-tax profit for the period stood at SIT 5.4 billion, exceeding the 2005 amount by five percent.

The Group's corporate income tax totalled SIT 709 million, while deferred taxes amounted to SIT 61 million.

In 2006, Luka Koper, d.d. obtained a proper decree from the Tax Administration of the Republic of Slovenia enabling it to apply additional tax reliefs based on operations carried out in the economic zone.

The Group's net profit equalled SIT 4.9 billion, a three percent increase over 2005, while the parent company's net profit rose 14 percent, amounting to SIT 4.8 billion.

Changes in revenue profitability and return on equity

RATIO / YEAR	2002		2003		2004		2005		2006	
	Luka Koper	The Group	Luka Koper	The Group	Luka Koper	The Group	Luka Koper	The Group	Luka Koper	The Group
Profitability of operating revenues (in %)	-42.6	-38.9	13.7	12.7	8.7	9.0	18.8	19.8	17.1	18.4
Net profitability of revenues (in %)	18.3	17.6	21.8	21.0	19.8	23.0	18.5	19.7	19.0	18.5
Net profitability of equity ratio	0.087	0.093	0.071	0.073	0.073	0.095	0.070	0.079	0.076	0.076
Dividends to share capital ratio	0.121	0.121	0.143	0.143	0.157	0.157	0.165	0.165	0.165	0.165
Return on equity (in %)	8.3	8.9	6.9	7.1	7.1	9.0	6.8	7.6	7.3	7.3

Data for 2003 and 2002 is calculated based on financial statements prepared in accordance with the 2001 Slovenian Accounting Standards, while other calculations are derived from financial statements prepared in accordance with International Financial Reporting Standards.

Improvements in the efficiency and organisation of operations as well as the changed cargo handling structure were reflected between 2002 and 2006 in the trend of increasing operating profit in operating revenues.

Profitability of operating revenues (operating profit/operating revenues) stood at 18.4 percent, which is 7 percent less than in 2005. Per every SIT 100 of operating revenues, the Company realised SIT 18 of operating profit.

Net profitability of revenues (net profit/total revenues) rose in 2006 by 6 percent in comparison to 2005, thus amounting to 18.5 percent. Lower percentage is above all a result of increased operating costs. The parent company, however, recorded a ratio that increased by 3 percent, which is a result of an effect from the financial part of the profit or loss.

The net profitability of equity ratio (net profit for the year/average equity (excluding net profit or loss for the current year)) as at 31 December 2006 indicated an improvement in the ratio for the parent company. As far as the return on equity ratio is concerned, the net profit for the year, which is a component of equity, has not been excluded. The rate of return is in line with a long-term trend. Compared to 2005, the rate for the Luka Koper Group is somewhat lower, which is a result of lower financial revenues as effects of distributed profits of associated companies are only reflected in the parent company.

Assets and liabilities

The Group's asset and liability structure is dominated by fixed assets and long-term investments, which account for 89 percent of the total assets. A portion of assets (2 percent) is recorded as investment property.

Long-term and short-term investments amounted to SIT 41 billion, which represents 47 percent of the balance sheet total. Long-term investments increased in 2006 on account of surpluses from revaluation of shares at fair value and by all new investments.

Short-term receivables decreased by SIT 5.3 billion.

Assets in the amount of SIT 87.8 billion are to a great extent financed from own sources. On the last day of 2006, equity of majority shareholders totalled SIT 70.7 billion and accounted for 81 percent of total assets.

On the same date, the Group's liabilities (short-term and long-term) represented 17 percent of the balance sheet total. Liabilities mainly consist of long-term financial liabilities in the amount of SIT 8 billion. On the other hand, short-term liabilities accounted for 4.2 percent of total liabilities as at 31 December 2006.

Financing and investing ratios, and acid test, quick and current ratios

RATIO / YEAR	2002		2003		2004		2005		2006	
	Luka Koper	The Group	Luka Koper	The Group	Luka Koper	The Group	Luka Koper	The Group	Luka Koper	The Group
Equity financing rate	0.90	0.90	0.84	0.84	0.82	0.80	0.84	0.82	0.84	0.80
Long-term financing rate	0.93	0.93	0.85	0.85	0.87	0.83	0.95	0.95	0.95	0.96
Operating fixed assets to assets rate	0.46	0.46	0.45	0.45	0.47	0.48	0.47	0.45	0.44	0.45
Long-term investment rate	0.80	0.80	0.86	0.86	0.81	0.82	0.82	0.81	0.90	0.89
Equity to operating fixed assets	1.95	1.95	1.84	1.84	1.75	1.68	1.77	1.83	1.91	1.81
Acid test ratio	1.83	1.83	0.51	0.51	0.90	0.98	2.75	3.07	0.74	1.11
Quick ratio	2.63	2.63	0.91	0.91	1.39	1.53	4.08	4.33	2.08	2.58
Current ratio	2.63	2.63	0.92	0.92	1.39	1.53	4.08	4.33	2.08	2.58

The asset structure points to the predominantly long-term character of assets, which is confirmed by values of long-term financing rate and operating fixed assets rate. The latter displays the share of fixed assets in the total assets.

A high value of equity financing rate points to a high share of equity in total liabilities. The ratio reflects high financial stability of operations. This is also confirmed by the equity to operating fixed assets ratio, which shows that all fixed assets are financed with the owner's equity. Acid test, quick and current ratios indicate that the Company is capable of covering its liabilities with own funds within the short-term period.

Operations of subsidiary companies

Luka Koper INPO, d.o.o.

Luka Koper INPO d.o.o. is a medium-sized company that has operated at the Slovenian commercial port as a member of the Luka Koper Group since 1995. It was established to undertake training and employment of disabled persons, who are still able, under special working conditions, to carry out their work well by providing various services and offering their knowledge and experience.

In 2006, the company generated SIT 1,505 million in operating revenues and SIT 289 million in net profit. Net profitability of its operating revenues totalled 19.2 percent.

Luka Koper Pristan d.o.o.

Luka Koper Pristan d.o.o. complements the business operations of the parent company Luka Koper, d.d. by performing hotel and accommodation services and high-end restaurant services. It was established in 1995 and is fully owned by Luka Koper, d.d. The company manages the Garni Hotel Pristan and Dom Prisoje in Koper.

In financial year 2006, the company generated SIT 225 million in operating revenues and realised SIT 20 million in net profit. Net profitability of its operating revenues totalled 8.7 percent.

Adria-Tow, d.o.o.

Adria-Tow, d.o.o. provides vessel towing services as its principal activity. In addition, the company provides ship supply services, as well as sea rescue and assistance to vessels in the Port of Koper and Izola Shipyard. The company was established in 1992 and is owned by the companies Luka Koper, d.d. and Ocean s.r.l. from Trieste, each holding a 50 percent interest.

In financial year 2006, the company realised SIT 932 million in operating revenues, while its net profit stood at SIT 372 million. The company's net profitability of operating revenues equalled 39.9 percent.

Risk management

The activities of the Luka Koper Group are organised through the parent company and the subsidiary companies and are related to general and specific operating risks that need to be appropriately managed. Appropriate risk management is ensured by timely identification and control of risks, which is based on guidelines and policies defined in the documents governing the integrated management of the Group and in rules and other acts.

Strategic risks

Clear definition of strategic orientations is key to strategic risk management. Implementation of these orientations and monitoring of internal and external business environment serve as a basis to identify risks and adopt decisions to contain them. Business strategy of Luka Koper for the period up to 2015 comprises fundamental development orientations relating to all principal lines of business. Decisions regarding the suitability of development projects are taken based on clear goals and careful planning. Our main task is to ensure that the companies are appropriately developing and that expected profitability of investments is achieved.

In 2006, development activities were aimed at intensive marketing, mostly in overseas markets. At the same time, preparations were initiated to draw up a national site design which will represent a framework for future development of port and of the accompanying activities.

Business risks

Development of our activities can be notably affected by macroeconomic and institutional factors. Such risks are managed by adopting an active and systematic approach:

- We develop partner relations with our customers, which increases their loyalty and ensures that mutual cooperation is enhanced.
- Structure of cargo by markets and types of goods shows sufficient geographical diversification.
- We strive for excellence in all services, which is one of our most important competitive advantages and an important factor of client acquisition and retention. Excellence is complemented by encouraging innovative activities and project collaboration with other providers in the logistics chain, as well as by scientific and analytical monitoring and measurement of the level of service provisions.

Development of partner cooperation is also a goal when it comes to relations with the suppliers of products and services. The Group's suppliers are regularly monitored, rated and commended based on known criteria including the level of quality achieved (reliability, timeliness, absence of errors) and payment discipline. In concluding contracts relating to concrete transactions, we provide for appropriate hedging instruments.

Financial risks

The Luka Koper Group adequately manages all financial risks, most important of which are liquidity and currency risks.

Liquidity risks

Liquidity risks are managed by regularly monitoring cash flows and matching the maturities of liabilities and receivables. Liquidity risk management is favourably affected by a large degree of flexibility in obtaining loans.

The absence of liquidity problems is confirmed by the credit rating report issued by I, d.o.o., a credit rating agency operating under the authorisation of Dun & Bradstreet. The credit rating agency awarded the Company the highest possible rating, i.e. a payment key of 80. This means that the Company settles all its liabilities by their maturity dates.

Currency risks

Currency risks are reduced by the use of internal hedging techniques. Effects of changing values of foreign currency receivables are managed by establishing liabilities in the same underlying currencies and regularly monitoring exposure levels.

By continuing its systematic transition to the Euro, the Company significantly reduced its exposure to currency risks also in 2006.

Interest rate risk

Changing interest rates do not represent any major risks to the Company, as both the structure of our sources of financing and the credit rating of our company enable us to obtain funding under the most favourable terms and with a large degree of flexibility. The servicing of loans is also maturity-balanced in relation to financial liabilities and assets according to different maturities.

In 2006, we maintained the credit rating of 5A1 that was upgraded in the previous year. The credit rating agency assessed our overall business standing as excellent (practically without risk).

Credit risk

Credit risk is controlled by using an active approach in the conclusion of financial agreements and adequate hedging instruments.

Settlement risk

Settlement risk is reduced by actively monitoring the credit rating reports of our biggest clients. One of our particularities is doing business through agents, leaving us with very few direct contacts with customers from around the world. The Company also makes use of liens on warehoused goods, which is realised if a customer fails to settle all of its obligations.

Internal audit

The Internal audit department performs internal audits in the scope and frequency appropriate to operating risks. Internal auditor performs an independent supervision function and advises managers at all levels on the accuracy and regularity of business operations of the Luka Koper Group.

The risk of auditing environment is assessed annually on the basis of the risk factors. Gross audit risk of most Luka Koper units is assessed to be between 1 and 3, which means, according to the general assessment, that audit units are characterised by a relatively low auditing risk.

As provided in the annual plan, the Internal audit department carried out 5 regular internal audits that were performed in accordance with the internal auditing principles and standards. The Code of Business Ethics and the rules governing the work of the Internal Audit department were also observed.

The audit revealed no major violations. The internal audit reports include the findings of facts concerning the audit performed and provide recommendations how to remedy the shortcomings that were determined in the business processes. When an increase in the risk relating to a particular business process was determined, the Internal Audit department proposed that control mechanisms be introduced into the risk management.

Investment policy

Investments

On the last day of the financial year 2006, long-term investment in the Luka Koper Group amounted to SIT 36.9 billion, representing 42 percent of all assets. Investments include investments in subsidiary and associated companies, and other investments that are marketable and non-marketable by nature.

Most long-term investments are owned by the parent company Luka Koper, d.d. and stood on 31 December 2006 at SIT 35.6 billion, which is 43.7 percent in assets.

The increase in long-term investments is a result of an increase in their fair value. The increase is recorded as a revaluation surplus in the specific equity category so that all long-term investments are disclosed in the balance sheet at fair value, i.e. market value on the last day of the year.

Investments in other stocks and shares amounted to SIT 18.6 billion. Investments that are valued at cost due to unavailability of their fair value equalled SIT 6.2 billion.

On the last day of 2006, short-term investments of the Luka Koper Group stood at SIT 3.9 billion.

Short-term investments of the parent company Luka Koper, d.d. account for most of such investments that, compared to the previous year, decreased by SIT 5.6 billion, thus amounting to SIT 2.7 billion on 31 December 2006. Reasons for such a decrease lie in the maturity of some investments and in the transfer of certain investments in mutual funds to long-term investments.

Plans for 2007

For 2007, no major activities have been planned in the area of allocating financial surpluses as these will be earmarked for supporting the Company's core activity and ambitious investments. Some investment may even become subject to disinvestment in 2007.

Technological modernisation

In 2006, we continued our intensive and development-oriented investment policy. At the Group level, SIT 7.2 billion was allocated to investments, of which Luka Koper, d.d. used SIT 5.4 billion to increase its capacities and modernise the plant and equipment used in cargo handling and storage.

The most important investments were related to:

- Preparatory work for setting up facilities for handling oil derivatives at Pier II,
- Purchase of two RTG cranes for PC Container terminal (transtainer),
- Preparatory work for construction of a new warehouse for cars (parking garage),
- Construction of a reservoir with capacity of 3,000 m³ (including equipment),
- Financial lease of a tugboat,
- Completion of a washing facility for machinery and vehicles. The washing facility has been built in line with legislation and environmental regulations of the EU.
- For the purpose of establishing, in accordance with the Schengen acquis, a border inspection post for persons operating within the Port of Koper, the Company, in cooperation with the Ministry of Public Administration, set up a border crossing point at RORO 3 that was handed over to the Maritime police at the year-end.

Plans for 2007

In 2007, SIT 19.8 will be earmarked for investments, of which SIT 639 million or 3.2 percent will be allocated to the environment protection.

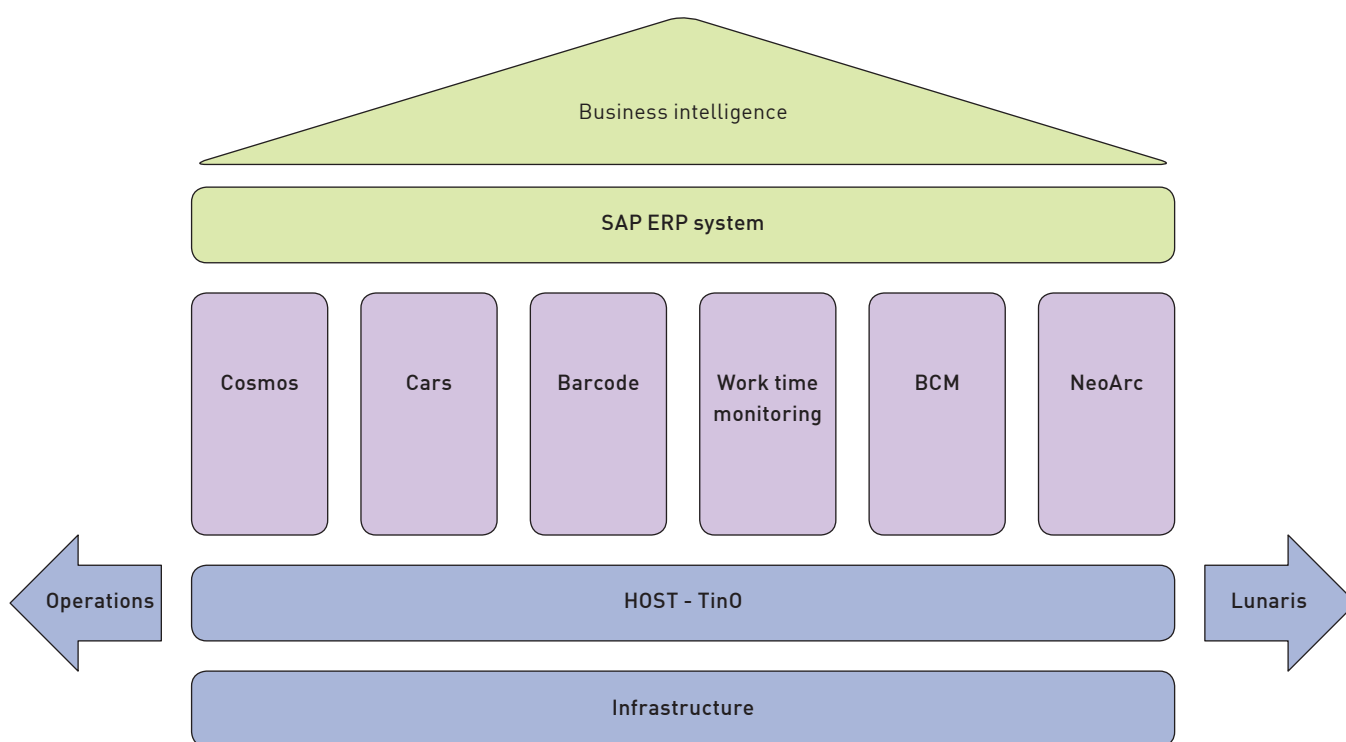
SIT 4.9 billion will be used for transport and cargo handling machinery, while SIT 10.7 billion will be spent on buildings and equipment used for conducting the Company's principal activity.

Provision of information support

- Regular support in maintaining the level of services.
- Planning of development and implementation of research projects and major development activities.
- Ensuring the safe use of information resources.
- In accordance with the Group's strategy, the following orientations were observed in fulfilling the business plan objectives:
 - Provision of efficient support to all business processes.
 - Openness and integration in the provision of comprehensive logistics services.
 - Security and rational management of operations.
 - Keeping total costs (of current operations and development projects) at a level not exceeding 4 percent of revenues of the public limited company.

Coordinated planning of information solutions is reflected in a stable functioning of the entire IT system and in adequate satisfaction levels of users of information resources.

Main components of the Luka Koper Group information system



In the middle of 2007, Luka Koper will finalise the Tin0 project (a system supporting the marketing and operational processes), thereby completing one of the most extensive IT development cycles.





University of Primorska: Learning Together

This, the newest and smallest of all Slovenia's universities, has a significant mission. Its quality scientific research underscores the competitiveness of the local economy and the development of our region as well as the country as a whole. Luka Koper has collaborated with the University since its foundation, and has worked with it to find business solutions and mutually promote Primorska in Europe and around the world.

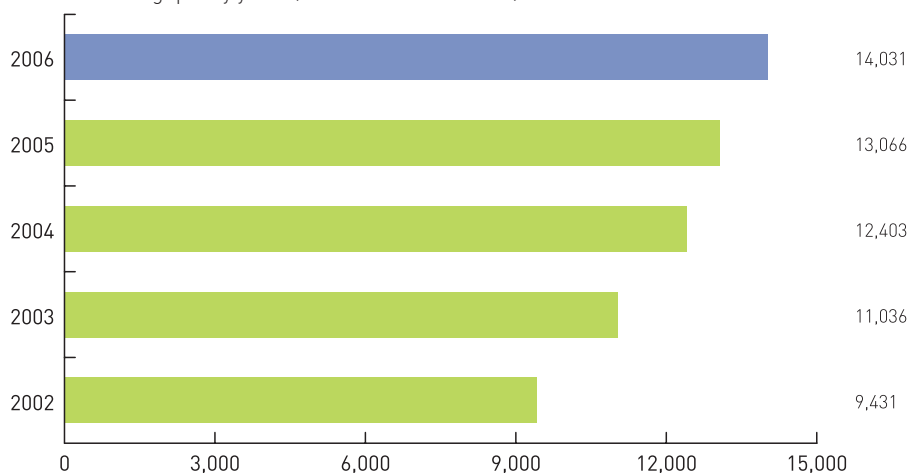
Marketing and customers

Marketing strategy

In 2006, we continued to pursue the strategic shift in the Company's activities, comprising the expansion of merely port activities to logistics services. This is confirmed by considering the purchase of various land-based terminals.

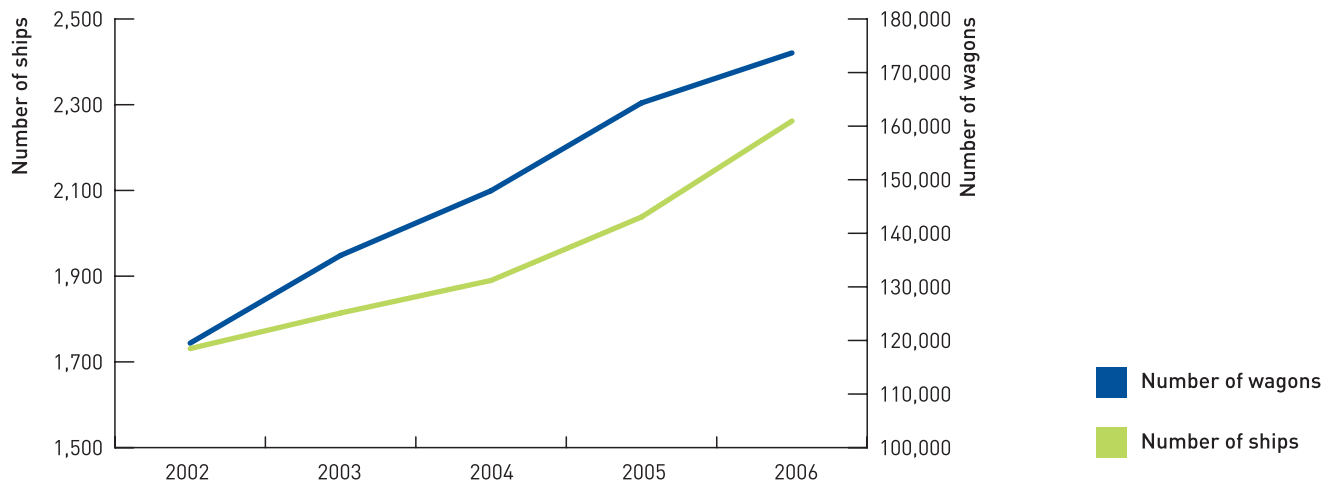
Maritime throughput

Maritime throughput by years (in thousands of tonnes)



Maritime throughput continued to grow and registered increasing cargo volumes. In 2006, the 2005 volumes were exceeded by 7 percent and the annual plan by 6 percent. This is a result of successful operations in all commodity groups. The highest contribution to results was made by containers, dry bulk cargoes, cars and general cargoes. By exceeding the thresholds of TEU 200,000 and 14 million tonnes of cargo handled, two new milestones were established in 2006.

Number of ships and wagons between 2002 and 2006



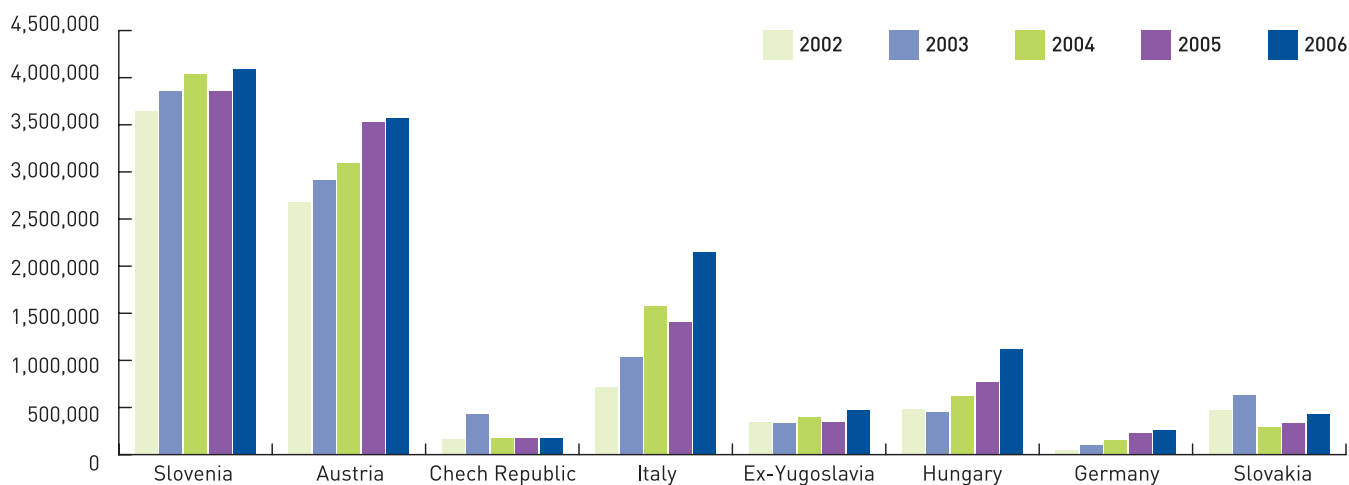
Structure of cargo handling by markets

The presence of key hinterland markets remained the same as in previous years.

30 percent or 4,090,945 tonnes of total cargo handled were intended for the Slovenian market. With 3,571,112 tonnes, Austria has been traditionally the most important foreign market, which is followed by Italy, Hungary, former Yugoslavian states, Slovakia, Germany and the Czech Republic. Cargo arriving at port and departing from it by sea (so-called transshipment) is also gaining in importance.

By achieving a result of 1,123,811 tonnes of total cargo handled, a new record was set in 2006 in connection with the Hungarian market, for the first time after 1995.

Structure of cargo handling by markets between 2002 and 2006 (in tonnes)



The above markets will continue to play an important role in the field of cargo handling at the port. We will try to increase the volumes handled mostly by tapping the Serbian and German market. Due to independence of Montenegro, we have noted an increased interest of Serbian overseas exporters and importers in our port.

We will continue to carry out activities that have been planned in respect of overseas markets, i.e. mainly markets of Far and Middle East, Turkey, Egypt and other markets.

Structure of cargo handling by cargo type

Containers

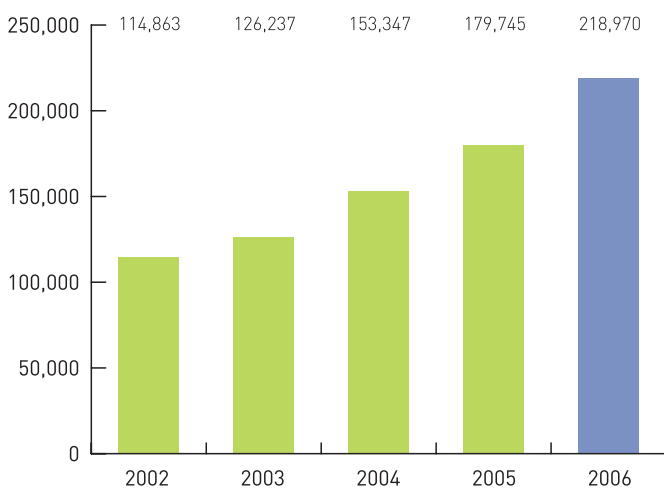
The volume of containers handled increased by more than 21 percent, reaching the record value of TEU 218,970.

Most containers, 87,833 units, were handled for Slovenian clients that were followed by Hungarian partners with TEU 57,334 and Austrian partners with TEU 21,568.

In connection with this growth it is also important to consider the contribution of efficient maritime and hinterland connections with the port itself. In 2006, we registered more than 30 operators of container ships arriving in Koper on regular basis. A new container line was established in cooperation with the shipping company Mitsui O.S.K.

Also important are the block train connections that have been established with hinterland markets and several railway operators, and are operating on regular basis.

Handling of containers between 2002 and 2006 (in TEU)



General cargoes

General cargoes are handled at four specialised terminals:

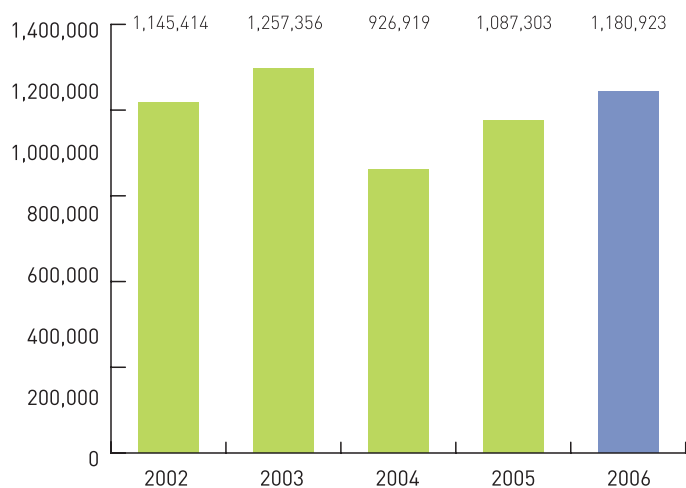
- fruit terminal,
- timber terminal,
- livestock terminal, and
- terminals for other general cargoes such as steel products, paper, cellulose, aluminium, sugar, coffee, appliances, home entertainment electronics, etc.

The volume of traditional general cargoes increased in comparison to 2005. The quantities handled at the timber terminal increased by 22 percent, which is the highest volume of timber that has been handled in the port so far. The volume of steel products handled increased as well.

The decrease in handling was observed only in relation to livestock, fruit and vegetables arriving by boat. However, a rapid growth has been recorded in handling fruit and vegetables arriving in containers from Israel with which a new direct container line was established in 2006. By returning empty refrigeration containers on the same ship, we strengthened the interest of the shipping companies as we are the only company in the Adriatic region that has introduced such services.

In 2007 we expect that volumes of fruit and vegetables will increase also on account of newly constructed refrigeration facilities with capacity of 1,400 pallets. This investment enables us to perform distribution in line with requirements of the leading exporters of fruit and vegetables. Having established a new direct container line with Egypt at the end of 2006, we are in a better position to handle fruit and vegetable cargoes arriving from this market with great potential.

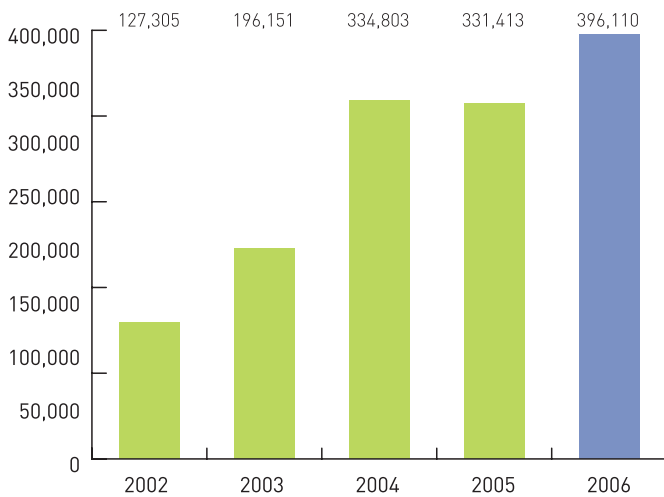
Handling of general cargoes between 2002 and 2006 (in tonnes)



Vehicles

By handling a record 396,110 vehicles, we have further consolidated our position as regards the handling of cars.

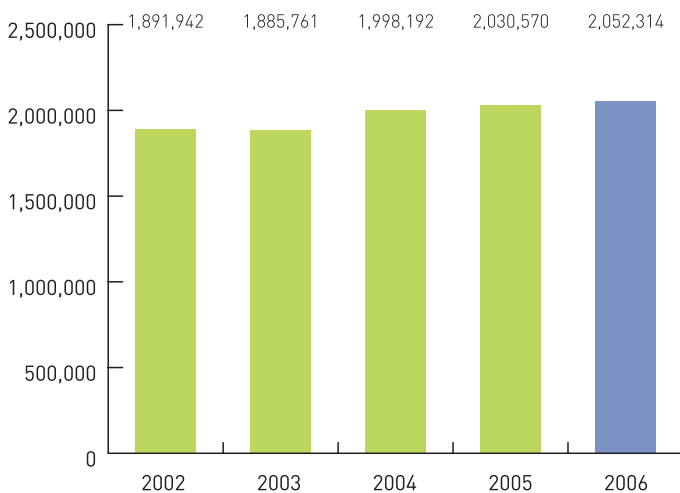
Handling of vehicles between 2002 and 2006 (in units)



Liquid cargoes

The volume of oil handled remained relatively unchanged over the years and stood in 2006 at 1,795,514 tonnes. In 2006, the volume of other liquid cargoes increased by 37 percent in comparison with the previous year and attained 256,800 tonnes.

Total liquid cargoes between 2002 and 2006 (in tonnes)



Dry bulk cargoes

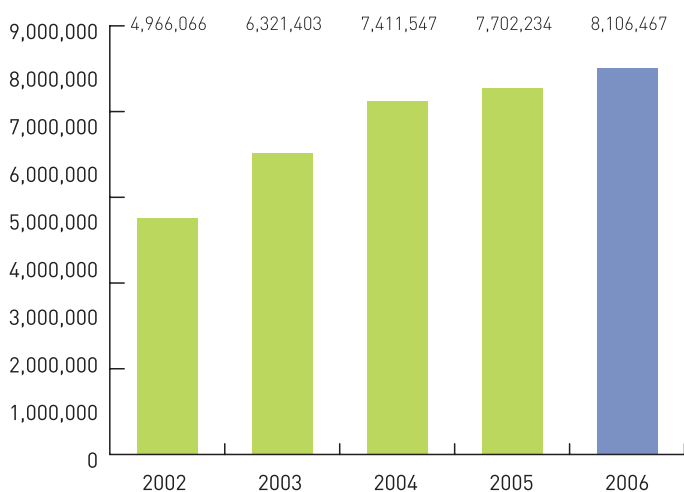
Various commodity groups or bulk cargoes are handled at four terminals:

- European energy terminal,
- Grain silo,
- Alumina terminal, and
- Terminal for other dry bulk cargoes that handles over 40 different commodity groups such as quarrying products, minerals, scrap iron, feeding stuffs, etc.

The volume of dry bulk cargoes handled increased to 8,106,467 tonnes, which is a 5 percent increase relative to 2005. Significant increases were recorded for soya, scrap iron, salt and cereals, while the quantities of other goods remained at similar levels as in previous years.

Owing to the lack of warehouse space, the European energy terminal had to refuse once again a number of ships carrying iron ore and coal.

Dry bulk cargoes between 2002 and 2006 (in tonnes)



Business excellence

The Company operates in line with a management system according to which it implements good practice principles based on the model of business excellence. The system also takes into account the particularities of subsidiary companies. The acknowledgement that we are working successfully and have chosen the right path dates back to 2002, when the Company received the Business Excellence Award of the Republic of Slovenia. Our competitiveness at the European level was confirmed by the European Award for Business Excellence that we received in 2005 as the first Slovenian company in the service sector. This award further encouraged us to enter the competition for the most prestigious European business excellence award of the European foundation for quality management (EFQM).



Among the finalists for the European business excellence award

Upon introduction of the model of business excellence, our goal was to harmonise our business operations with the best practices of European companies and use them as a model for comparison. An important step forward was made in 2005, when we became a member of the EFQM.

In 2006, we further improved our operations by adopting better approaches in various areas of operation and engaging all employees. The mark we obtained earned us a place among the finalists for the European business excellence award. The received acknowledgment officially places us among the best organised and most efficient companies that demonstrate strong leadership and achieve excellent results.



Self-assessment based on the EFQM Model

Luka Koper conducts self-assessment based on the EFQM Model on a regular basis. Self-assessment has been introduced into all profit centres and the subsidiary company INPO, d.o.o. We see it as a tool in the process of constantly improving all areas of our operations.

Integrated management system

The Luka Koper Group has established a management system through the integration of various systems connecting individual parts of business processes into a uniform management system. Of great assistance to us in this area are the international quality standards and principles of business excellence.

We are attaining the highest possible effects with the most rational use of available resources by the integration of quality systems, environmental management, ensuring safety and health at work, the conformity of foods, the protection of information, the model of business excellence and the certificate for separate handling and warehousing of non-genetically modified soya.

Through its good business practice, the management system fully supports operational work. Due to specific requirements of clients, special additional standards apply to some terminals (non-GMO certification relating to handling and storing non-genetically modified soya at the dry bulk cargo terminal).

Some profit centres and the subsidiary companies INPO, d.o.o. and Pristan, d.o.o. have also introduced the HACCP food safety management system that is yet to be certified.

Plans for 2007

- We will improve the areas that were highlighted during the assessment based on the business excellence model.
- We will carry out the business model-based self-assessment in the subsidiary company INPO, d.o.o.
- As part of the Benchmarking project we will establish an efficient approach involving comparison with other successful companies.
- We will take all appropriate steps carry out the certification assessment for the HACCP system (ensuring the conformity of foods) in accordance with requirements of the ISO 22000:2005 standard.
- We will continue to promote good operating practice inside the Company and disseminate it externally.

Partnership with suppliers

Relations with our suppliers are developed in a spirit of partnership. Special attention is devoted to suppliers being of particular importance for port and related activities.

A success in systematic development of partnerships with suppliers is reflected in a significant decrease in complaints to suppliers and in a smaller number of cases relating to non-compliance with contractual terms.

The Luka Koper Group will continue to organise "Purchasing conference" that bring together the persons in charge of procurement with the Technical and procurement service. The purpose of such meetings is to harmonise and optimise the appearance on the demanding global procurement market.

At the end of the year, 22 suppliers from two groups were assessed:

- technical services (6 suppliers),
- products (16 suppliers).

Supplier assessment represents a basis for choosing a supplier and listing it as a strategic supplier. Luka Koper cooperates and conducts its business almost exclusively with strategic suppliers. This stands for great reliability of goods delivered and services performed, for desired quality and for meeting the deadlines.

Implementation of SAP procurement and maintenance modules

In 2006, two SAP modules were implemented to support maintenance and procurement. By implementing the maintenance module, the maintenance system was organised and harmonised. This enables us to monitor the equipment defects and defect causes more easily and quickly, to efficiently control the maintenance costs, to establish an efficient system for preventive and corrective maintenance, and to simplify the planning of maintenance costs.

By implementing the procurement module, we expedited the ordering system, strengthened control over the suppliers, automated the reporting and increased its transparency.

Inventions

The Group employees submitted 308 proposals for improvement, thereby exceeding the goal of four innovations per ten employees by 11 percent.

According to the plan for 2007, there will be further growth in the area of inventions, which will involve a review of the existing approaches and improvements thereto (motivation and bonuses for proposed improvements, registering of improvements, measurement of their effects, etc.).

Shareholder satisfaction

In December 2006, the Ljubljana Stock Exchange transferred the share of Luka Koper, d.d. to its the prime market (the first quotation).

On 1 January 2007, the shares of Luka Koper, d.d. were converted into no-par shares in accordance with a resolution of the General Meeting. The Company's share capital consists of 7,140,000 ordinary no-par shares and 6,860,000 participating preference no-par shares with limited voting rights.

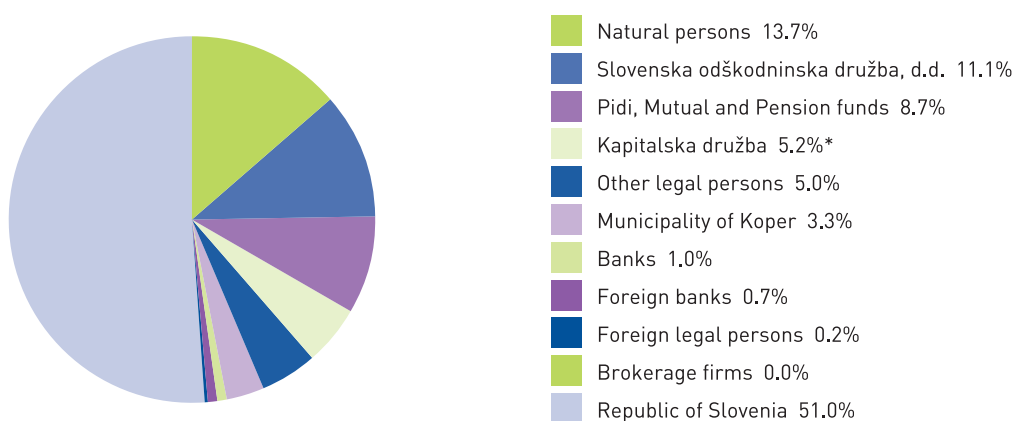
Ownership structure

At the end of 2006, the Company had 9,859 shareholders, which is four percent more than in the previous year. On 31 December 2006, the ten largest shareholders held 76.17 percent of all shares of Luka Koper, d.d.

The ownership structure changed significantly when the Municipality of Koper sold a 3.3 percent stake to Slovenska odškodninska družba, d.d. as a result of which the Municipality of Koper now holds 3.3 of shares while Slovenska odškodninska družba owns 11.1 percent of Luka Koper shares.

The Republic of Slovenia remains the Company's largest shareholder with a holding of 51 percent.

Ownership structure of Luka Koper, d.d. as at 31 December 2006



* The item Kapitalska družba comprises all Kapitalska družba funds (KVPS, PPS, SODPZ) and the company Kapitalska družba, d.d.

Ten largest shareholders as at 31 December 2006

Name	Address	No. of shares %	%
Republic of Slovenia	Gregorčičeva 20, 1000 Ljubljana	7,140,000	51.0%
Slovenska odškodninska družba, d.d.	Mala ulica 5, 1000 Ljubljana	1,557,857	11.1%
Kapitalska družba, d.d.	Dunajska cesta 119, 1000 Ljubljana	696,579	4.9%
Municipality of Koper	Verdijeva ulica 10, 6000 Koper	466,942	3.3%
KD ID, delniška ID, d.d.	Celovška cesta 206, 1000 Ljubljana	170,858	1.2%
KD Galileo, Mutual Fund	Celovška cesta 206, 1000 Ljubljana	151,905	1.1%
Delniški vzajemni sklad Triglav Steber I	Slovenska cesta 54, 1000 Ljubljana	142,720	1.0%
Vizija Holding Ena, d.d.	Dunajska cesta 156, 1000 Ljubljana	118,585	0.8%
Adriatic Slovenica, d.d., Koper, Protection Fund	Ljubljanska cesta 3a, 6000 Koper	114,077	0.8%
Zavarovalnica Triglav, d.d.	Miklošičeva 19, 1000 Ljubljana	104,756	0.7%
10 largest shareholders - total		10,664,279	76.2%

The ownership share also represents the share of voting rights, excluding points stipulated in the Articles of Association in respect of which the Government can only vote using the ordinary shares.

On 31 December 2006, the following members of the Supervisory

Board held shares of Luka Koper, d.d.:

- Tatjana Jazbec 35 shares,
- Robert Jerman 704 shares,
- Metod Mezek 150 shares,
- Alverino Pavletič 1,567 shares,
- Marko Starman, Msc. 140 shares,
- Marko Valentinčič 100 shares.

Other members of the Supervisory Board did not own shares of the Company on the above-mentioned date.

On 31 December 2006, the following members of the Management Board held shares of Luka Koper, d.d.:

- Marjan Babič, Msc. 928 shares
- Pavle Krumenaker 3,328 shares

The president and the deputy president of the Management Board held no Company's shares.

Cross-holdings between other companies

The companies in which Luka Koper, d.d. has at least a 5 percent ownership share and which own shares of Luka Koper, d.d. (as at 31 December 2006):

Name	Share of Luka Koper, d.d. in other company	Participation of other company in the equity of Luka Koper, d.d.
Intereuropa, d.d.	24.81%	0.03%
Banka Koper, d.d.	10.00%	0.56%

Owners holding at least 5 percent of LKPG shares on 31 December 2006:

- The Republic of Slovenia [51 percent],
- Slovenska odškodninska družba, d.d., [11.1 percent], and
- Kapitalska družba, d.d., and its funds [5.2 percent].

There are no cross-holdings between the above entities.

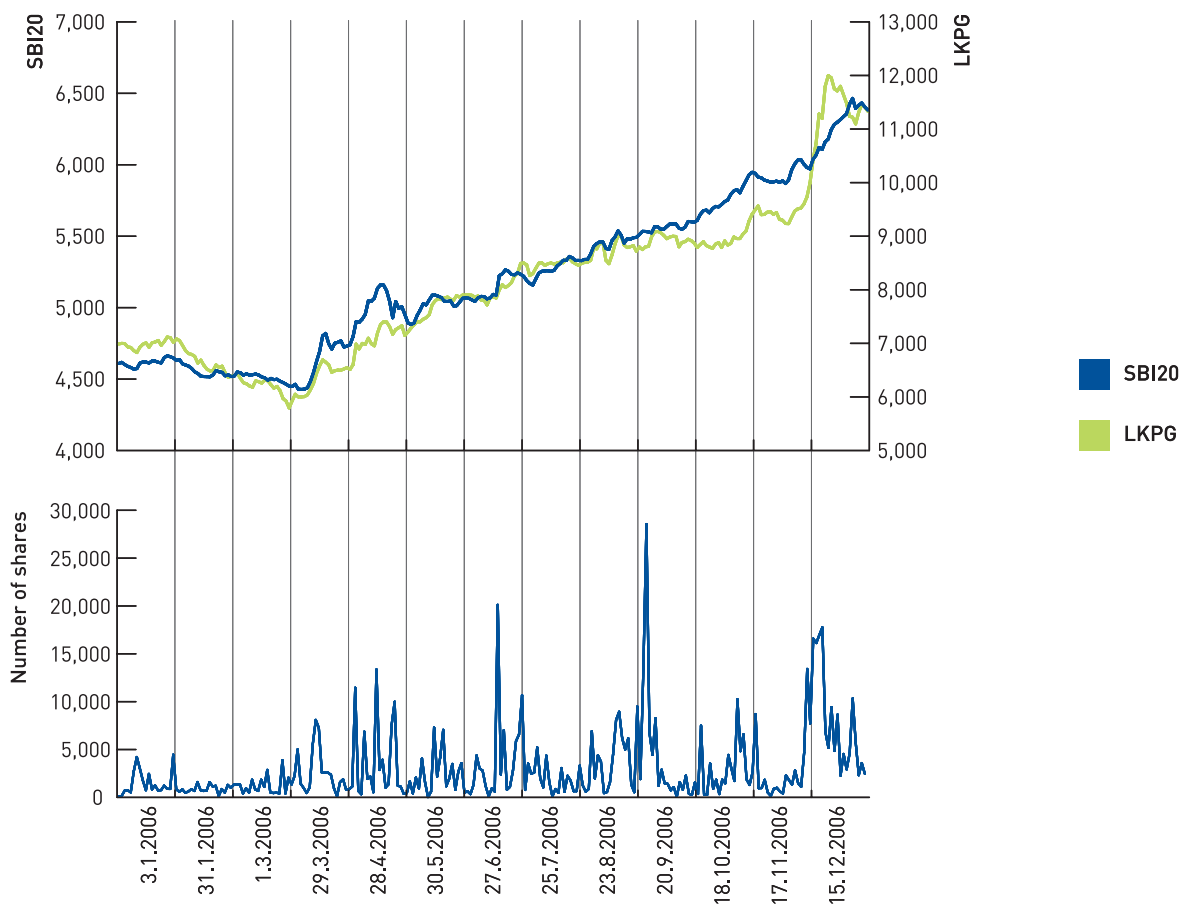
Trading in shares

In 2006, a total of 5,396 transactions were carried out with the LKPG shares. The ownership of 742,581 shares, that is 10.4 percent of all ordinary shares listed, changed.

Changes in the price of the Luka Koper, d.d. share compared to the Slovenian Stock Exchange Index in 2006 and the volume of trading.

The average price of the share on the first day of trading stood at SIT 6,988.46 and on the last day of trading at SIT 11,332.56. The share's average weighted price was SIT 8,729.62, which is 13.89 percent above the 2005 figure, which amounted to SIT 7,664.76.

The peak price achieved in transactions with our share was SIT 12,500.00, while the lowest price was SIT 5,600.00. The volume of trading in the share on the Ljubljana Stock Exchange reached SIT 6.5 billion.



Selected data on the Luka Koper, d.d. share for the past five years

	2002	2003	2004	2005	2006
Number of shares	14,000,000	14,000,000	14,000,000	14,000,000	14,000,000
No. of preference shares	6,860,000	6,860,000	6,860,000	6,860,000	6,860,000
No. of ordinary shares	7,140,000	7,140,000	7,140,000	7,140,000	7,140,000
Price on the last trading day of the current year	4,594.11	7,217.57	8,047.33	7,107.66	11,332.56
Average book value per share	3,867.96	3,899.45	4,045.66	4,250.62	4,567.78
Net earnings per share (EPS)	321.00	277.53	298.69	299.21	341.54
Price-earnings ratio (P/E)	13.3	19.06	26.67	25.62	25.56
Price to book value ratio	1.1	1.36	1.97	1.80	1.91
Weighted average market price	4,267.84	5,290.79	7,966.15	7,664.76	8,729.62
Dividend yield (in %)	4.4	4.2	3.1	3.2	3.0
Total volume of trading in the share (in thousands of SIT)	5,781,739	4,465,161	7,908,248	5,251,453	6,482,447
Dividend per share	225	245	245	260	260

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

EPS is calculated as the ratio between the net profit for the period and the number of issued shares.

Dividend distribution policy

Approximately half of net profit is earmarked for distribution among shareholders, while ensuring a growing return per share.

The gross dividend per ordinary share for 2005 stood at SIT 260. The foreseen gross dividend per ordinary share for 2006 is SIT 260, and SIT 65.86 for preference shares.

Luka Koper, d.d. held no treasury shares in 2006.

Dividend per ordinary and preference shares

Year	Ordinary shares	Preference shares
2002	225.00	56.99
2003	245.00	65.86
2004	245.00	65.86
2005	260.00	65.86
2006	260.00	65.86

Informing shareholders and the general public

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

Since the shares of Luka Koper, d.d. are listed on the Ljubljana Stock Exchange, the Company publishes relevant information on the stock exchange website, SEOnet.

Financial calendar for the year 2007

28 February	Publication of unconsolidated and consolidated financial statements
March	Publication of summary annual report for 2006
May	Publication of the annual report for 2006
31 May	Publication of interim report for the first quarter
July/August	Publication of the convening of the General Meeting General Meeting of the Company Publication of the General Meeting's resolutions
31 August	Publication of summary semi-annual report
September	Dividend distribution
30 November	Publication of interim report for the nine-month period

The table indicates the scheduled dates of individual events and publications. Actual dates may differ from those indicated.

Publications will be made available on the Ljubljana Stock Exchange website (www.ljse.si) through the SEOnet system and on the website of the company Luka Koper, d.d. (www.luka-kp.si).



Luka Koper Volleyball Club: Team-working Together

At Luka Koper we are confident that team sports improve the quality of life of the individual, and help us build better relationships between people. Through its three decades of sponsorship of international tournaments and our city's women's volleyball club, the company has fostered and promoted amicable business and sporting relations.



Sustainability Report of Luka Koper Group

Report on sustainable development

Definition of social responsibility

In conducting its development projects, the Luka Koper Group provides for a balance between the corporate interests and those of the community. Our understanding of social responsibility encompasses more than mere management of risk factors related to the natural environment. Special attention is devoted to employees, yet cooperation with the local and broader community also constitutes an important part of our operations.

Our attitude towards the social environment was one of the criteria assessed by expert reviewers of the European foundation for quality management (EFQM) for the purpose of business excellence recognition, who determined that the social responsibility is being implemented in the spirit of European standards.

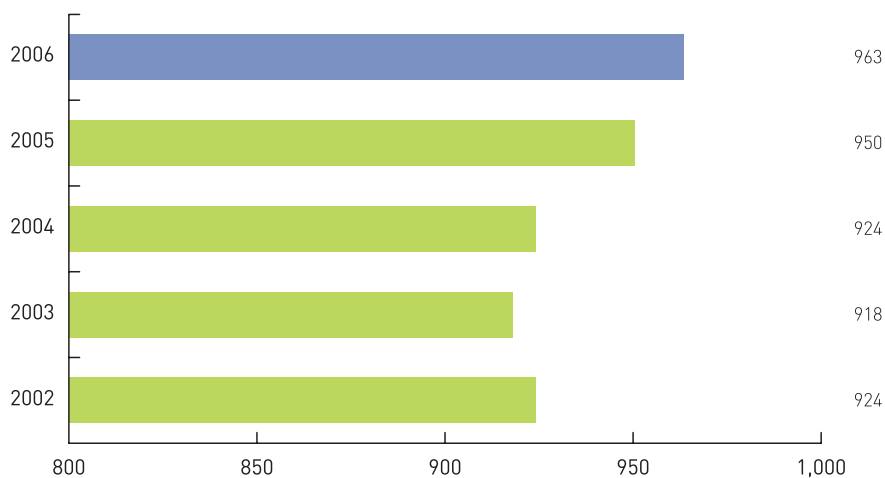
Human resources management

Our employees are guaranteed social security and stability and also professional and personal development. We are thus indirectly facilitating and promoting development of the entire region.

As regards the human resources area, the trend of increasing number of employees developed in line with increases in cargo handling, which rose 7 percent in comparison to the previous year. The amount of rescheduled working hours (compensation hours) and overtime increased accordingly.

On 31 December 2006, The Luka Koper Group had 963 employees, 1.6 percent more than in 2005.

Number of employees between 2002 and 2006



The number of employees has been increasing since 2004, indicating an upward trend. Considering the human resources plan for 2007, the trend will continue to point upwards in the coming year as well. In 2006, staffing fluctuation stood at 6.2 percent, which is significantly higher than in the previous year when a fluctuation of 3.58 percent was recorded.

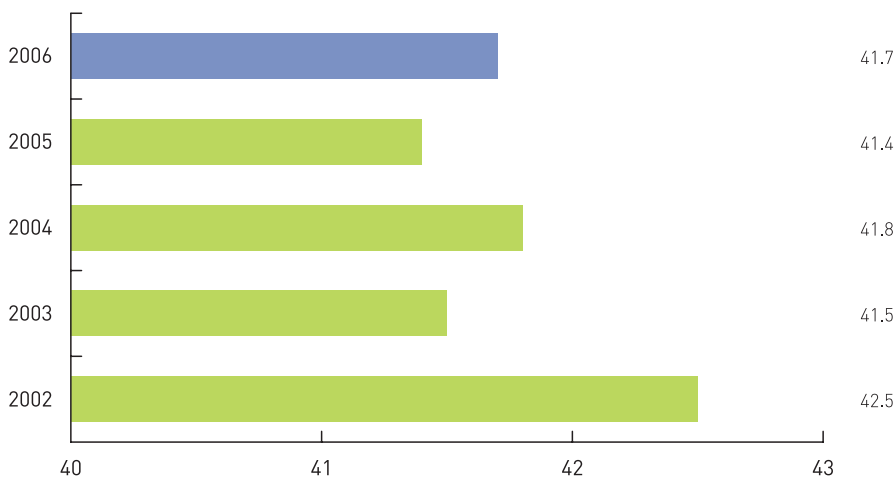
Number of employees

The number of employees has been increasing since 2002. According to the plan, this trend will continue in 2007 as well.

- compliance with the rules governing the management of working hours,
- implementation of safety provisions prescribed by the law,
- replacement of people that will retire in 2007, and
- increasing scope of work in all areas of operation, which is a result of increasing throughput, numerous development investments and reorganisation of individual business segments.

The average age of employees was 41.7 years, while the average length of service was 19.8 years. The average length of service remained unchanged relative to the previous year, while the average age of employees increased by 0.3 years.

Average age of employees since 2002



The activities planned to achieve greater flexibility were continued in accordance with the legal provisions governing working hours and rights relating to breaks and rests of employees.

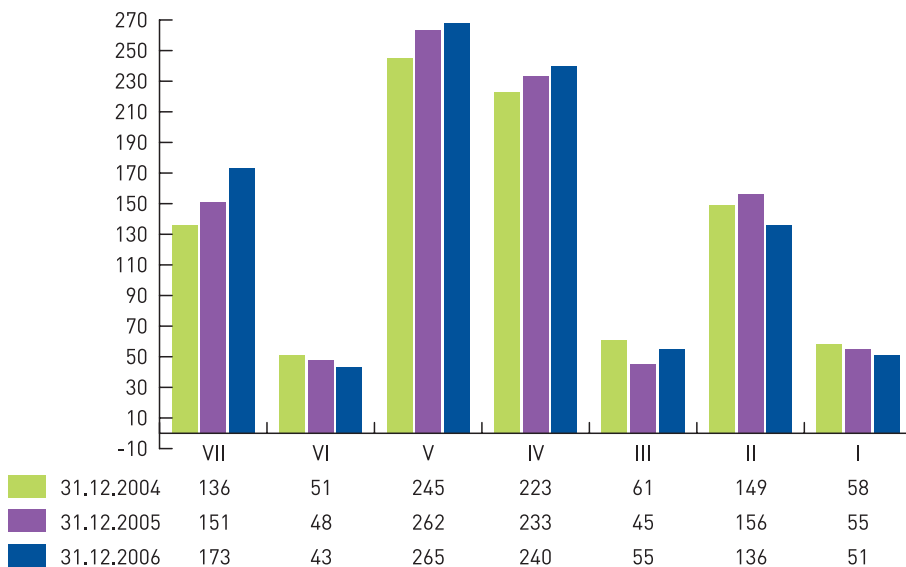
Education structure

The employee education structure improved due to:

- employment of staff with higher levels of education,
- departures of employees with lower level of educations, and
- continued education of employees (part-time study).

In comparison to 2005, the number of employees with sixth, seventh and eighth level of education increased in 2006 by 7.2 percent, while the number of unqualified and semi-qualified workers fell by 10 percent (due to retirement).

Education structure of employees between 2004 and 2006



Human resources development: Education and career development of employees

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

With a view of ensuring adequate types of employees, the following activities were undertaken:

- The Company developed, in cooperation with the National Institute for Vocational Education and Training, a professional standard of NPK lift operator that is yet to be approved by the Regional Committee for Professional Standards and the Council of Experts of the Republic of Slovenia for Vocational and Technical Education and integrated into the regular education programme at the fifth level of competence (the secondary school).
- In 2006, one maintenance worker/operator received the national professional qualification of NPK mechatronic. The training programme offers an appropriate combination of engineering, electronics and informatics skills required for the type of lift operators and maintenance workers that the Company requires. Because the training requires significant financial input, the Company supported the efforts of Secondary Technical School in Koper in obtaining the approval to carry out the NPK mechatronic education programme at the fifth level of competence.
- Through the Regional Development Centre in Koper, the Company takes part in the European project Euroestiba (a part of Leonardo da Vinci programme), enabling it to compare internationally the training programmes for operational staff at the port.

Individual development of employees is assured through annual interviews and the process of identifying and developing our potentials and successors, which involves determining the development potential of employees that will occupy more demanding and responsible positions. The implementation of individual development plans is conducted through the education and training of employees, rotation of employees to the same or similar jobs in other organisational units, and the horizontal and vertical advancement of employees.

Education is aimed at focused development of employees that is achieved, based on the concept of a learning organisation, by continuous and systematic functional training of employees, by supporting part-time studies, and through introduction programmes implemented on recruitments and promotions to more demanding and responsible positions. For several years now, all employees in the Group have undergone at least one form of education.

In 2006, on average 38 hours of training per employee were used for the functional training of employees (8 hours more than in 2005).

With a view to achieving an optimal education structure and to encourage development of employees for the purposes of promotion to more demanding positions, the Company increased in 2006 the share of employees that have concluded an education-related contract, from 5.5 in 2005 to 6.2 percent (60 employees). In 2006, 15 employees successfully completed their studies.

Monitoring and remuneration of work

The number of on-the-job promotions decreased in 2006. This can be attributed to the fact that most people that have been working for the Luka Koper Group for more than 7 years have already been promoted. We expect that also in 2007 the number of on-the-job promotions will decrease, which is why the promotion system will have to be adapted to the changed knowledge needs and carried out in a more targeted manner.

In 2006, the Company also granted non-material rewards as part of awarding the best performers in 2005. The president of the Management Board publicly commended the best manager, five exemplary workers, an innovator and the team responsible for quality.

The effects of staff management are monitored by conducting a survey of employees that is used as a basis to determine the organisational

climate, loyalty and employee satisfaction. In 2006, the survey was conducted based on targeted and problem-oriented questions. The employee satisfaction improved the most in the area of management, which is a result of investments in intensive training of managers that has been taking place in the past years in the area of soft skills, communications and teamwork.

SIT 2.6 million was used for financial aid, which is SIT 900 thousand more than in the previous year.

Safety and health at work

Achievement of goals regarding safety and health at work in the Luka Koper Group has been based on the preventive approach that relates to all employees. It was designed to identify risks and successfully eliminate and control the risks through application of various measures.

Special emphasis was placed on decreasing the frequency and severity of injuries at work. We also focused on the prevention of risks arising from addiction to psycho-active substances occurring due the nature of work.

Injuries at work are managed through systemic actions. In 2006, there were 38 injuries at work, which is 4 more than in the previous year. By educating the employees and increasing their awareness, we are strengthening our safety culture. Workers' qualification is a key condition for safe performance of work. 420 employees attended training in the field of safety and health work, among them managers and workers handling hazardous substances.

The Luka Koper Group strives to ensure optimal conditions also by keeping its employees healthy. This includes preventive medical check-up performed under professional supervision of authorised occupational medicine practitioner. In 2006, 413 such check-ups were carried out.

Goals for 2007

In the area of safety and health at work, the Company set a goal that the costs of absence due to injuries at work should not exceed 1 Slovenian tolar per handled tonne.

Cooperation with the local environment

In interacting with the social environment factors, we found our business philosophy on a conviction that the general development of the environment represents an important factor of our own business success. Establishment of relations with the social environment in accordance with ethic principles of a socially responsible company is laid down in our strategic orientations as a goal of "Active coexistence with environment". In this context, we support and co-finance the development programmes in the field of social activities. Luka Koper also supports cultural activities, education, sports and health services.

The Company actively participates in the project of developing a passenger terminal in Koper.

The relocation of the main port entry for trucks to the area of Sermin will significantly increase the quality of living in the city of Koper.

Sponsorships and donations

In 2006, the Company earmarked SIT 117 million for sponsorships, donations and similar types of financial assistance, of which sponsorship accounted for SIT 73 million.

Sponsorships

Most funds (slightly over 91 percent) were allocated to sports organisations, societies and individual sportspersons. Funds were allocated to the Luka Koper Volleyball Club, FC Koper football club, the Olympic Committee of Slovenia, and the Slovenian Tennis Association. The remaining amount (slightly less than 9 percent) of sponsorship funds was allocated to various projects or activities in the field of culture and education and to certain environment protection projects.

Donations

In total SIT 44 million was earmarked for donations, of which 68 percent was allocated to sports activities (mainly to the Sports Association Koper for setting up a sports and recreational park in Ankaran), 11.34 percent to cultural activities (mainly to the Koper Brass Band), 2.94 percent to the education (the University of Primorska obtained most funds), and 17.01 percent to humanitarian aid.

Cooperation with pupils and students

As a form of non-material assistance to the social environment, Luka Koper offers pupils and students an opportunity to get directly acquainted with operations of port and logistics system on the spot. Over 12 thousand pupils paid a visit to the port in 2006. For groups arriving from institutions of higher education, special lectures are provided as well.

Cooperation with educational and scientific institutions

The Company is pursuing close cooperation with educational and research institutions.

It also participates in national and international projects:

- In June 2006, the Company established a Slovenian Maritime Technological Platform (SMTP), which is a constituent part of the EU Waterborne Platform. SMTP plays an important role in developing the Slovenian maritime industry and improving the competitiveness of economic activities related to it. The platform simultaneously ensures that the development of the industry is considered as a whole by bringing together the business sphere, research and development organisations, and the national or European institutions. SMTP operates mostly in the following areas: port logistics and operations, maritime transport, vessel and equipment industry, ecology, environment and spatial planning.
- In 2006, the Company set out to establish a Consortium for the development project called "Higher Education in the Field of Natural Science and Modern Technologies at Primorska" and became a partner in the University of Primorska's endeavours to establish a natural science and technical education system in Obalno-kraška region in doing so.
- The Company supports the introduction of new study programmes (mechatronic programme at the secondary and higher education level carried out by the Secondary Technical School in Koper, natural science study programmes carried out by the University of Primorska, programmes of the 2nd and 3rd degree in the field of social, business and administration sciences carried out by the Faculty of Management).

Development projects

The establishment of the Slovenian Maritime Technological Platform represents a development project of wider social significance. Since its inception, 24 companies, research institutions and institutions of higher education joined the project. The SMTP project is aimed at efficient creation of knowledge as well as development and innovative solutions for all entities operating in the maritime transport and logistics sector.

The construction of the northern bypass road is another reflection and result of the Company's social responsibility. With the construction of the bypass road the most sensitive contact area between the port and the city was given a new quality.

Another specific contact area is located at the border between the port and the Škocjanski zatok natural reserve. This is why the Company is starting up a project to return this area to its original condition. The project of renaturation of Škocjanski zatok and setting up a nature park at its location is already underway. In 2006, Luka Koper earmarked SIT 3.6 million for this purpose.

Environmental report

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

The Port of Koper is the only port in the northern Adriatic that operates in accordance with ISO 9001 and 14001 standards. In May 2006, ISO 14001:1996 standard was upgraded to ISO 14001:2004 standard.

We are committed to developing new methods and models for the effective protection of the environment and its management. For this reason we cooperate very closely with local communities in resolving environmental issues.

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

Cooperation with numerous institutions and local communities

The Company conducts numerous research projects and actively participates in national and international projects aimed at reducing and preventing negative impacts on the environment, namely:

- harmful intakes and management of ballast waters in the Slovenian sea,
- impacts of aerosols,
- environmental protection programme for Slovenian Istria, and
- REMPEC (Regional Marine Pollution Emergency Response Centre for the Mediterranean Sea).

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

In October 2005, we initiated a project in the Port of Koper entitled "Control of air pollution with dust residues in the local communities of Ankaran and Hrvatini". The purpose of the project was a yearly analysis and determination of the influence area of dust residues emitted from the coal and iron ore depot in the area of the European Energy Terminal. Sampling is conducted at six points, one of which is positioned so as to enable the comparison of dust quantities coming from Trieste and Koper.

Monitoring of air quality

The quality of air is assessed by measuring emissions. As these are subject to legal provisions, the results are regularly reported to the Government.

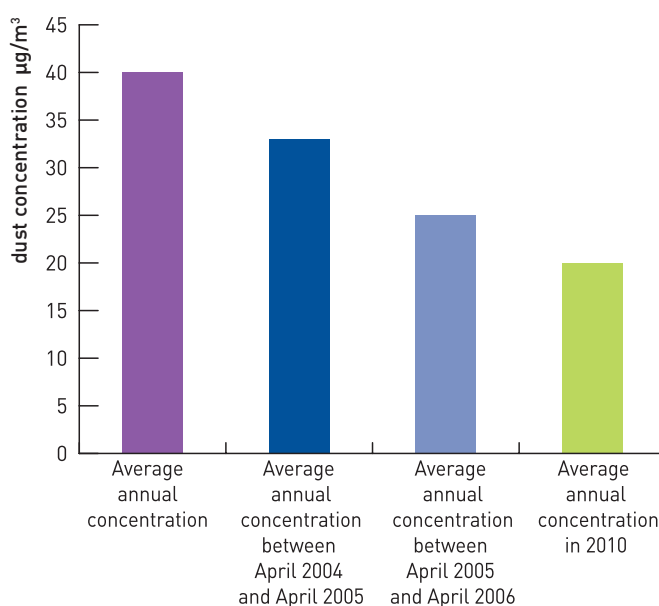
There are no legal provisions concerning the dust imissions for companies. There are, however, rules prescribing their maximum quantity. The maximum quantity of particles (dust) is set at the average annual value of 200 milligrams per square metre per day. In 2006, the limits were, on average, not exceeded, except at two measuring points in the vicinity of construction works.

In addition to monitoring emissions and imissions, we are also conducting a study on air quality monitoring in the area of Pier II. Since 2003, an authorised institute has been conducting uninterrupted measurements of imissions of inhalable dust particles in the direct vicinity of the dry bulk cargo depot.

On the basis of measurements performed, we have established that the average annual concentration of inhalable dust is below the legally prescribed maximum concentration, which under Slovenian law and European Union guidelines amounts to 40 micrograms per cubic metre.

Our goal is to halve this value by the year 2010. This is also required by the Kyoto Protocol, which is binding for all members of the European Union. This goal will be attained, as the measurements of dust particles in air indicate that their concentration in the period between April 2005 and April 2006 decreased significantly in comparison with April 2004 and April 2005. The average concentration during the first of the above periods stood at 25.1 micrograms per cubic metre.

Concentration of inhalable dust in 2005 and 2006 and projection for 2010

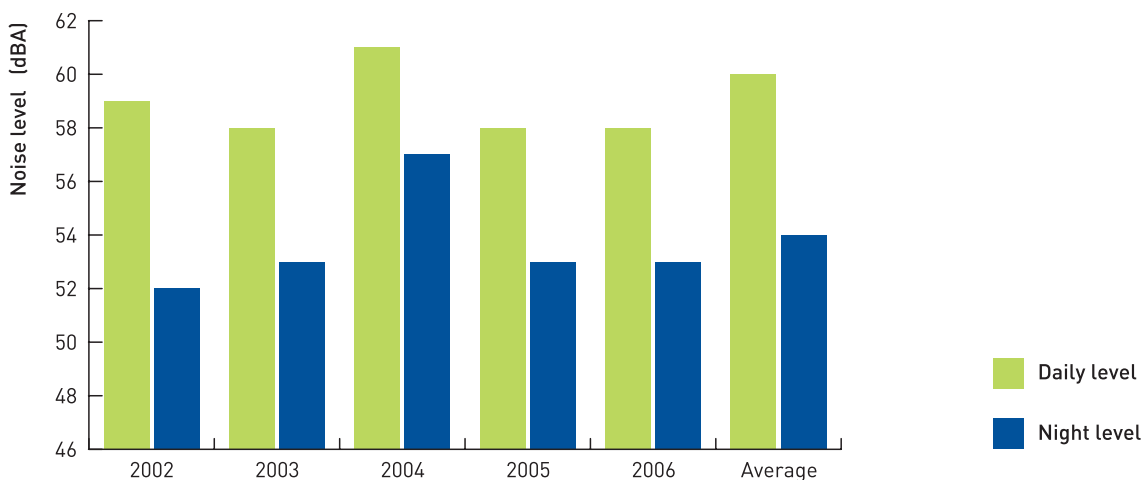


Continuous monitoring of noise impacts on the environment

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

In June 2006, the area of the Port of Koper was scanned using an acoustic camera in order to provide for greater transparency in respect of noise sources. By doing so, the Company accurately determined the microlocations with increased noise levels.

Comparison of noise levels since 2002 with an average level



Striving for rational energy consumption

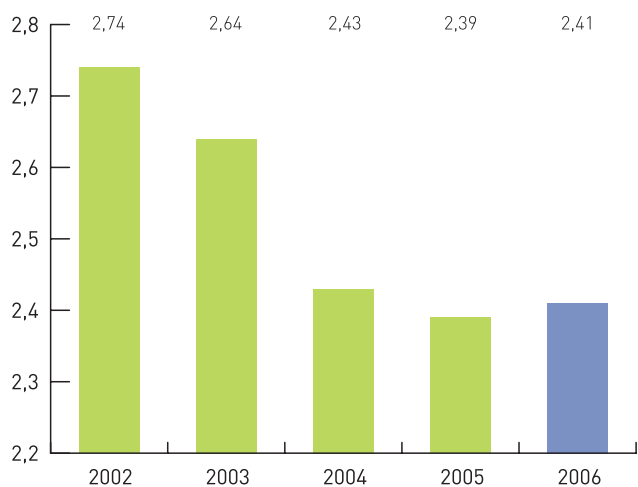
The Company is making efforts to reduce consumption of energy and energy sources. In 2006, one tonne of handled cargo consumed:

- 1.59 kWh of electricity,
- 0.2 litres of motor fuel, and
- 7.4 litres of water.

High energy efficiency was also a result of numerous energy-efficient machines that were purchased and given into service in the previous year.

Over the past three years, the quantity of consumed water decreased mainly on account of computerised control and instantaneous detection of water loss.

Energy consumption (electricity and motor oil) per handled tonne

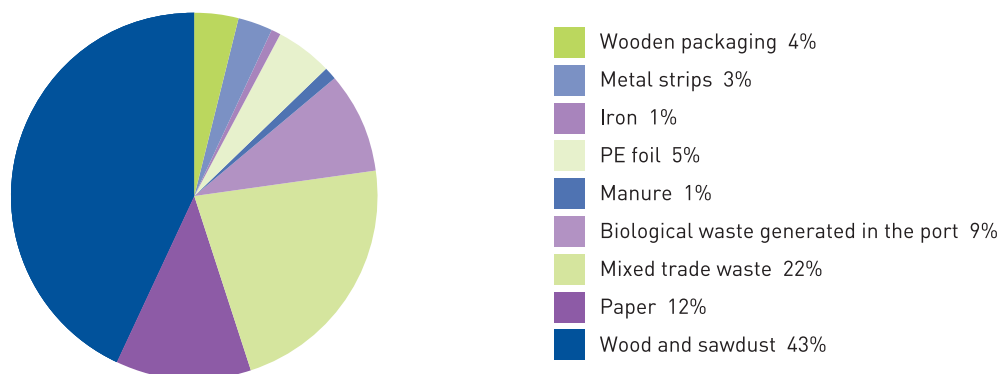


Systematic waste management

At the port, as much as 74 percent of all waste is collected separately, which is then recycled by the company Luka Koper Inpo that treats waste generated in the port area. A portion of waste is processed at the composting plant, while other types of waste are handed over to authorised companies (Dinos, timber industry, etc.).

The total quantity of unusable waste has decreased markedly over the past years, and the cleanliness and appearance of our working environment has improved, simultaneously increasing the cost-effectiveness of our operations.

Breakdown of waste collected separately in 2006



Protection of the sea

The protection of the sea is assured pursuant to the service contract relating to the prevention and elimination of the sea pollution concluded by the Republic of Slovenia and Luka Koper, d.d.

The port aquatorium is under constant supervision.

In 2006, the Company prepared a document governing the organisation of the sea protection service and a plan of actions in the event of the sea pollution.

We estimate that in the past year the organisation and operations of the sea protection service proved to be very efficient and successful. Our aim for 2007 is to obtain a concession for engaging in a mandatory economic public service in the field of maintenance of aquatic and offshore land for the entire Slovenian sea.

Environmental views are reported to the public

Information on all relevant environmental views is communicated to the internal public through the Company's website, the electronic newspaper Notice and the internal bulletin Luški glasnik. Broader public is informed through the mass media.

Information is delivered to relevant state authorities in the prescribed manner and within the legally prescribed terms. The Company's Business Report is published in the Slovenian and English languages on our web pages.

We issue publications on the topic of the development of Luka Koper, d.d. and send them to local communities and other interested parties. We organise interactive workshops, publish specialised articles on the topic of sustainable development, and actively participate in various environmental conferences. Each year we conduct a survey among the surrounding population, thereby obtaining opinions on our company's operations and attitude toward the environment. The persons interviewed provided a positive feed-back. On a scale of 1 to 5, the impact of port activities on the environment obtained a score of 3.84, which is an improvement over the previous year when it stood at 3.59.

Environmental goals in the light sustainable development for 2007

Considering the alignment with international legislation and the Luka Koper's strategy relating to the introduction of good practices into the environment management system, the following environmental goals have been set for 2007:

- to validate the environmental statement,
- to initiate procedures for obtaining the EMAS certificate,
- to purchase a mobile device for dust particle measurement (PM10) that enables on-line data presentation,
- to reduction a share of the Luka Koper Group's waste that is not collected separately by 1 percent (to 25 percent),
- to gradually reduce emission thresholds and bring them into line with European legislation (the average annual concentration of inhalable dust should not exceed 25 µg/m³),
- to strengthen efforts to harmonise Luka Koper's appearance with the surrounding environment, leading to the realisation of investments in environment protection,
- to obtain a concession for engaging in a mandatory economic public service in the field of maintenance of aquatic and offshore land for the entire Slovenian sea.

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

By conducting operational environmental activities, the Company will reduce or prevent dust emissions and noise, and limit the impact of other company activities on the environment.

President of the Management Board
Robert Časar

Member of the Management Board
Marjan Babič, Msc.

Head of Controlling
Matjaž Šmajgl



LUKA KOPER

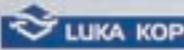
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za nova obzorja

balinarska dvorana



2



Boules Section of Luka Koper Sports Association: Socialising Together

Thirty-three years ago, boules enthusiasts, aspiring to offer port employees an additional form of recreation, decided to found their own special section of the Luka Koper Sports Association. Over the decades the Section has grown into an organisation with a proud record of sporting accomplishment, though one of the most important attributes remains its function as a social forum for workers and pensioners.





Financial Report of
Luka Koper, d.d.
and the Luka Koper Group
for 2006

Introduction to the preparation of financial statements

The financial statements and notes to the financial statements of Luka Koper, d.d. and the consolidated financial statements and the notes to the financial statements of the Luka Koper Group are provided in a single report. The financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter: IFRS). Chapter 7 describes the transition of the parent company Luka Koper, d.d. to IFRS and the transition impacts in terms of value.

The auditors of Deloitte revizija, d.o.o. audited the stand-alone and the consolidated financial statements and also prepared an auditor's report that has been included in this report.

The statement of management's responsibility is provided at the beginning of the financial report and denotes responsibility for all financial statements, i.e. the financial statements of Luka Koper, d.d. and the Luka Koper Group.

Auditor's Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF LUKA KOPER D.D.

Report on the Financial Statements

We have audited the accompanying financial statements of the company Luka Koper d.d. and Luka Koper Group, which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. We also reviewed the business report.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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.

Audit. Tax. Consulting. Financial Advisory.

Member of
Deloitte Touche Tohmatsu

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 give a true and fair view of the financial position of Luka Koper d.d. and Luka Koper Group as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Business report is consistent with the audited financial statements.

Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 1

DELOITTE REVIZIJA d.o.o.

Lidija Jezernik
Pooblaščenka revizorka
Članica uprave



Ljubljana, February 27, 2007

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

1 Income statement - audited unconsolidated and consolidated

(In thousands of SIT)

	Notes	Luka Koper, d.d.		Luka Koper Group	
		2006	2005	2006	2005
Operating revenues	8.1.1	23,332,260	20,693,887	25,327,138	22,192,886
1. Net sales revenues		22,566,120	19,835,269	24,405,972	21,199,029
Revenues from sales in the domestic market		5,053,975	3,429,814	5,463,550	3,547,508
Revenues from sales in the foreign market		17,512,145	16,405,455	18,942,422	17,651,521
2. Changes in inventories of products and work-in-progress		0	0	0	0
3. Capitalised own products and own services		0	0	770	0
4. Other operating revenues		766,140	858,617	920,396	993,857
Operating costs	8.1.2	19,332,994	16,797,632	20,678,160	17,799,903
5. Costs of goods, material and services	8.1.2.1	8,665,415	7,585,950	8,571,727	7,432,202
6. Labour costs	8.1.2.2	5,268,731	4,734,017	6,425,242	5,689,439
7. Write-downs	8.1.2.3	3,288,977	3,196,274	3,518,708	3,429,237
8. Other operating expenses	8.1.2.4	1,794,074	1,281,391	1,808,249	1,249,025
9. Provisions	8.1.2.5	315,797	0	354,234	0
Operating profit or loss		3,999,267	3,896,254	4,648,978	4,392,983
Total financial revenues	8.1.3	1,838,190	1,936,907	1,461,422	2,259,335
9. Financial revenues from shares		1,399,645	1,320,720	943,502	1,559,999
10. Financial revenues from loans granted		333,453	403,083	407,486	417,271
11. Financial revenues from operating receivables		105,092	213,104	110,434	282,065
Total financial expenses	8.1.4	460,212	735,168	501,248	830,401
12. Financial expenses for impairments and write-offs of investments		20,058	294,670	22,190	294,670
13. Financial expenses for financial liabilities		267,797	256,505	299,852	239,640
14. Financial expenses for operating liabilities		172,357	183,993	179,206	296,091
Total profit or loss from ordinary activities	8.1.5	5,377,244	5,097,993	5,609,152	5,821,916
15. Other revenues	0	0	0	0	0
16. Other expenses	0	0	0	0	0
Pre-tax profit	8.1.5	5,377,244	5,097,993	5,609,153	5,821,916
17. Income taxes	8.1.6	651,952	989,004	709,087	1,079,005
18. Deferred taxes	8.1.6.1	56,287	79,992	61,094	72,176
19. Net profit or loss for the year	0	4,781,579	4,188,981	4,961,160	4,815,087
Net profit of minority shareholders	0			186,026	72,605
Net profit or loss	8.1.7	4,781,579	4,188,981	4,775,134	4,742,482
Basic earnings per share	8.1.8	606.41	523.42	605.51	600.94
Diluted earnings per share	8.1.8	341.54	299.21	341.08	338.75

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction with them.

Income statement in EUR

(In thousands of EUR)

	Luka Koper, d.d.	Luka Koper Group
	2006	2006
Operating revenues	97,364	105,688
1. Net sales revenues	94,167	101,844
Revenues from sales in the domestic market	21,090	22,799
Revenues from sales in the foreign market	73,077	79,045
2. Capitalised own products and own services	0	3
3. Other operating revenues	3,197	3,841
Operating costs	80,675	86,288
5. Costs of goods, material and services	36,160	35,769
6. Labour costs	21,986	26,812
7. Write-downs	13,725	14,683
8. Other operating expenses	7,487	7,546
9. Provisions	1,318	1,478
Operating profit or loss	16,689	19,400
9. Financial revenues from shares	5,841	3,937
10. Financial revenues from loans granted	1,391	1,700
11. Financial revenues from operating receivables	439	461
12. Financial expenses for impairments and write-offs of investments	84	93
13. Financial expenses for financial liabilities	1,117	1,251
14. Financial expenses for operating liabilities	719	748
Total profit or loss from ordinary activities	22,439	23,407
15. Other revenues	0	0
16. Other expenses	0	0
Pre-tax profit	22,439	23,407
17. Income taxes	2,721	2,959
18. Deferred taxes	235	255
19. Net profit or loss for the year	19,953	20,702
Net profit of minority shareholders	0	776
Net profit	19,953	19,926
Basic earnings per share	2.53	2.53
Diluted earnings per share	1.43	1.42

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction with them.

2 Balance sheet - audited unconsolidated and consolidated

(In thousands of SIT)

	Notes	Luka Koper, d.d.		Luka Koper Group	
		31.12.2006	31.12.2005	31.12.2006	31.12.2005
Assets		81,511,309	75,636,192	87,805,048	79,351,132
A. Non-current assets	8.2.1	73,661,195	62,189,628	78,340,618	63,924,678
I. Intangible assets	8.2.1.1	155,430	261,763	155,664	261,983
II. Property, plant and equipment	8.2.1.2	35,772,712	33,713,737	39,128,392	35,452,992
1. Land and buildings		26,189,103	26,663,669	26,918,593	27,407,022
2. Manufacturing plant and equipment		7,164,623	6,273,936	9,788,413	7,266,372
3. Other plant and equipment		12,343	10,742	14,743	13,142
4. Property, plant and equipment being acquired		2,406,643	765,390	2,406,643	766,456
III. Investment property	8.2.1.3	1,881,932	1,922,817	1,881,932	1,922,817
IV. Long-term investments	8.2.1.4	35,631,571	26,128,054	36,930,479	26,284,082
1. Long-term investments, excluding loans		33,082,751	24,047,738	32,810,672	24,201,039
2. Long-term loans		2,548,820	2,080,316	4,119,807	2,083,043
V. Long-term operating receivables	8.2.1.5	2,811	2,804	2,811	2,804
VI. Deferred tax assets	8.2.1.6	216,739	160,453	241,340	0
B. Current assets	8.2.2	7,829,808	13,433,573	9,442,624	15,407,627
I. Assets held for sale (or disposal groups)	8.2.2.1	29,977	0	29,977	0
II. Inventories	8.2.2.2	0	0	1,054	995
III. Short-term investments	8.2.2.3	2,693,047	8,291,049	3,911,124	9,447,302
IV. Short-term operating receivables	8.2.2.4	5,031,108	4,308,620	5,351,525	4,486,393
V. Cash	8.2.2.5	75,676	833,904	148,944	1,472,937
C. Short-term deferred costs (expenses) and accrued revenues	8.2.2.6	20,306	12,990	21,806	18,827
Off-balance sheet assets	8.2.2.7	3,499,980	1,807,966	4,756,810	2,236,151
Liabilities		81,511,309	75,636,192	87,805,048	79,351,132
A. Capital	8.2.3	68,380,821	62,894,204	70,666,768	64,927,326
Equity – majority shareholder		68,380,821	62,894,204	70,200,846	64,647,429
I. Called-up capital		14,000,000	14,000,000	14,000,000	14,000,000
II. Capital reserves		21,462,806	21,462,806	21,462,806	21,462,806
III. Profit reserves		24,250,484	22,167,891	24,274,211	22,190,639
IV. Revaluation surplus		4,838,074	1,824,840	4,838,074	1,824,840
V. Net profit or loss brought forward		1,438,668	1,344,177	3,242,388	2,521,152
VI. Net profit or loss for the year		2,390,789	2,094,490	2,383,367	2,647,992
Equity – minority shareholders				465,922	279,897
B. Provisions and long-term accrued costs (expenses) and deferred revenues	8.2.4	871,692	727,921	2,415,804	1,942,502
C. Long-term liabilities	8.2.5	8,295,247	8,558,914	10,861,374	8,696,990
I. Long-term financial liabilities		6,832,619	7,939,185	7,975,236	8,253,187
II. Long-term operating liabilities		17,489	11,450	1,440,999	15,484
III. Deferred tax liabilities		1,445,139	608,279	1,445,139	428,319
D. Short-term liabilities	8.2.6	3,758,717	3,234,406	3,654,494	3,558,244
I. Liabilities included in disposal groups		0	0	0	0
II. Short-term financial liabilities		914,733	284,293	539,381	368,122
III. Short-term operating liabilities		2,843,984	2,950,113	3,115,113	3,190,122
E. Short-term accrued costs (expenses) and deferred revenues	8.2.7	204,833	220,747	206,608	226,070
Off-balance sheet liabilities	8.2.2.7	3,499,980	1,807,966	4,756,810	2,236,151

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction with them.

Balance sheet in EUR

(In thousands of EUR)

	Luka Koper, d.d.	Luka Koper Group
	31.12.2006	31.12.2006
Assets	340,141	366,404
A. Non-current assets	307,383	326,910
I. Intangible assets	649	650
II. Property, plant and equipment	149,277	163,280
1. Land and buildings	109,285	112,329
2. Manufacturing plant and equipment	29,897	40,846
3. Other plant and equipment	52	62
4. Property, plant and equipment being acquired	10,043	10,043
III. Investment property	7,853	7,853
IV. Long-term investments	148,688	154,108
1. Long-term investments, excluding loans	138,052	136,917
2. Long-term loans	10,636	17,192
V. Long-term operating receivables	12	12
VI. Deferred tax assets	904	1,007
B. Current assets	32,673	39,403
I. Assets held for sale (or disposal groups)	125	125
II. Inventories	0	4
III. Short-term investments	11,238	16,321
IV. Short-term operating receivables	20,994	22,332
V. Cash	316	622
C. Deferred costs (expenses) and accrued revenues	85	91
Off-balance sheet assets	14,212	19,448
Liabilities	340,141	366,404
A. Capital	285,348	294,887
Equity – majority shareholder	285,348	292,943
I. Called-up capital	58,421	58,421
II. Capital reserves	89,563	89,563
III. Profit reserves	101,195	101,295
IV. Revaluation surplus	20,189	20,189
V. Net profit or loss brought forward	6,003	13,530
VI. Net profit or loss for the year	9,977	9,945
Equity – minority shareholders	0	1,944
B. Provisions and long-term accrued costs (expenses) and deferred revenues	3,638	10,081
C. Long-term liabilities	34,615	45,324
I. Long-term financial liabilities	28,512	33,280
II. Long-term operating liabilities	73	6,013
III. Deferred tax liabilities	6,030	6,030
D. Short-term liabilities	15,685	15,250
I. Liabilities included in disposal groups	0	0
II. Short-term financial liabilities	3,817	2,251
III. Short-term operating liabilities	11,868	12,999
E. Short-term accrued costs (expenses) and deferred revenues	855	862
Off-balance sheet liabilities	14,605	19,850

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction with them.

3 Cash flow statement - audited unconsolidated and consolidated

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	1.-12.2006	1.-12.2005	1.-12.2006	1.-12.2005
Cash flows from operating activities				
Income statement items	6,801,606	5,583,221	7,748,923	6,360,507
Operating revenues (excluding revaluation) and financial revenues from operating receivables	23,202,384	20,084,869	25,121,875	21,565,235
Operating expenses without depreciation/amortisation (excluding revaluation) and financial expenses from operating liabilities	-15,807,460	-13,512,644	-16,727,150	-14,197,899
Income taxes and other taxes not included in operating expenses	-595,665	-989,004	-647,993	-1,006,829
Changes in net operating current assets (and in accrued / deferred revenues / costs (expenses), provisions, and deferred receivables and tax liabilities) of the operating balance sheet items	-251,098	-1,020,860	-125,622	-898,551
Opening less closing operating receivables	-741,500	299,104	-858,797	434,793
Opening less closing deferred costs (expenses) and accrued revenues	-7,316	7,769	-2,979	8,360
Opening less closing deferred tax assets	-56,286	79,993	-241,340	0
Opening less closing assets held for sale (or disposal groups)	-29,977	0	-29,977	0
Opening less closing inventories	0	0	-59	615
Closing less opening operating liabilities (debts)	-100,091	-1,396,119	-146,402	-1,516,456
Closing less opening accrued costs (expenses) and deferred revenues and provisions	-150,440	-11,607	137,112	174,137
Closing less opening deferred tax liabilities	836,860	0	1,016,820	0
Net cash flows from operating activities (a+b)	6,550,510	4,562,361	7,623,301	5,461,956
Cash flows from investing activities				
Inflows from investing activities	3,212,364	2,179,510	2,378,095	2,129,597
Inflows from interest received and shares in profits of others relating to investing activities	1,802,410	1,371,786	1,029,966	1,431,131
Inflows from disposal of intangible assets	0	70,841	0	17,341
Inflows from disposal of long-term investments	0	736,883	0	681,125
Inflows from disposal of short-term investments	1,409,954	0	1,348,129	0
Outflows from investing activities	7,371,895	3,575,034	8,431,443	5,215,437
Outflows for acquisition of intangible assets	35,418	0	39,191	0
Outflows for acquisition of property, plant and equipment	5,014,139	3,264,242	5,427,412	3,057,039
Outflows for acquisition of investment property	45	0	45	0
Outflows for acquisition of long-term investments	2,322,293	0	2,962,604	0
Outflows for acquisition of short-term investments	0	310,792	0	2,158,398
Net cash flows from investing activities (a+b)	-4,159,531	-1,395,524	-6,053,348	-3,085,840
Cash flows from financing activities				
Inflows from financing activities	630,440	4,467,511	171,259	4,308,838
Inflows from increase in long-term financial liabilities	0	4,467,511	0	4,308,838
Inflows from increase in short-term financial liabilities	630,440	0	171,259	0
Outflows from financing activities	3,779,646	7,536,758	3,065,205	6,586,987
Outflows for interest paid in relation to financing activities	364,884	391,763	479,058	473,647
Outflows for repayment of long-term financial liabilities	1,106,566	4,943,899	277,951	0
Outflows for repayment of long-term financial liabilities	0	0	0	3,912,244
Outflows for dividend payments and other shares in profits	2,308,196	2,201,096	2,308,196	2,201,096
Net cash flows from financing activities (a+b)	-3,149,206	-3,069,247	-2,893,946	-2,278,149
Closing balance of cash	75,676	328,198	148,944	362,274
Net cash flow for the period (sum of Ac, Bc and Cc)	-758,228	97,590	-1,323,993	97,967
Opening balance of cash	833,904	230,607	1,472,937	264,307

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction with them.

4 Statement of changes in equity of the company Luka Koper, d.d. for the year 2006 (audited unconsolidated)

	(In thousands of SIT)							
	Share capital	Capital reserves	Legal reserves	Other profit reserves	Net profit brought forward	Net profit for the year	Revaluation surplus	Total equity
	I/1	II/1	III/1	III/4	IV/1	V/1	VI/2	
Balance as at 31 December 2005	14,000,000	0	4,496,872	17,671,019	1,585,557	2,094,490	23,267,630	63,115,568
IFRS-related adjustments as at 1 January 2006		21,462,806			-241,380		-21,442,790	
Balance as at 1 January 2006	14,000,000	21,462,806	4,496,872	17,671,019	1,344,177	2,094,490	1,824,840	62,894,203
Transfers to equity	0	0	0	0	0	4,781,579	3,013,234	7,794,813
Additional capital paid-up								0
Net profit or loss for the year						4,781,579		4,781,579
General equity revaluation								0
Specific equity revaluation							3,013,234	3,013,234
Transfers within equity	0	0	0	4,390,789	94,490	-4,485,279	0	0
Allocation of net profit according to the resolution of the Management and the Supervisory Board				2,390,789		-2,390,789		
Allocation of net profit to additional reserves according to the resolution of the General Meeting				2,000,000	94,490	-2,094,490		
Other reallocations of equity components								
Transfers from equity	0	0	0	-2,308,196	0	0	0	-2,308,195
Dividend distribution				-2,308,196				
Payment of bonuses to members of the Management and the Supervisory Board								
Distribution to employees								
Transfer of specific equity revaluation adjustment								
Balance as at 31 December 2006	14,000,000	21,462,806	4,496,872	19,753,612	1,438,667	2,390,790	4,838,074	68,380,821
Distributable profit				2,308,196	1,438,667	2,390,790		6,137,653

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction with them.

of the company
Luka Koper, d.d.
for the year 2005

(In thousands of SIT)

	Share capital	Capital reserves	Legal reserves	Other profit reserves	Net profit brought forward	Net profit for the year	General equity revaluation adjustment	Specific equity revaluation adjustment	Total equity
	I/1	II/1	III/1	III/4	IV/1	V/1	VI/1	VI/2	
A. Balance as at 1 January 2005	14,000,000	0	4,496,872	15,777,624	1,494,761	2,090,797	21,462,806	1,281,698	60,604,558
B. Transfers to equity									
Additional capital paid-up									0
Net profit or loss for the year						4,188,981			4,188,981
General equity revaluation									0
Specific equity revaluation								523,126	523,126
C. Transfers within equity									
Allocation of net profit according to the resolution of the Management and the Supervisory Board				4,094,490	90,797	-4,185,287	0	0	0
Allocation of net profit to additional reserves according to the resolution of the General Meeting				2,094,490	2,090,797	-2,094,490			2,090,797
Other reallocations of equity components				2,000,000	-2,000,000	-2,090,797			-2,090,797
D. Transfers from equity									
Dividend distribution				-2,201,096	0	0	0	0	-2,201,096
Payment of bonuses to members of the Management and the Supervisory Board				-2,201,096					-2,201,096
Distribution to employees									0
Transfer of specific equity revaluation adjustments									0
E. Balance as at 31 December 2005	14,000,000	0	4,496,872	17,671,018	1,585,558	2,094,491	21,462,806	1,804,824	63,115,569
Distributable profit				2,308,195	1,585,558	2,094,491			5,988,244

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction with them.

Statement of changes in equity of the Luka Koper Group for the year 2006 (audited consolidated)

	Share capital	Capital reserves	Legal reserves	Other profit reserves	Net profit brought forward	Net profit for the year	Revaluation surplus	Total equity
	I/1	II/1	III/1	III/4	IV/1	V/1	VI/2	
Equity - majority shareholders								
Balance as at 1 January 2006	14,000,000	21,462,806	4,519,621	17,671,018	2,521,152	2,647,992	1,824,840	64,647,429
Transfers to equity	0	0	0	0	2,647,992	2,127,142	3,013,234	7,767,122
Net profit or loss for the year						4,775,134		4,775,134
Other reallocations of equity components					2,626,746	-2,647,992		-21,246
Specific equity revaluation							3,013,234	3,013,234
Transfers within equity	0	0	978	4,390,789	-1,905,510	-2,390,789	0	94,490
Allocation of net profit according to the resolution of the Management and the Supervisory Board				2,390,789		-2,390,789		0
Allocation of net profit to additional reserves according to the resolution of the General Meeting				2,000,000	-1,905,510			94,490
Other reallocations of equity components								0
Transfers from equity	0	0	0	-2,308,195	0	0	0	-2,308,195
Dividend distribution				-2,308,195				-2,308,195
Payment of bonuses to members of the Management and the Supervisory Board								0
Distribution to employees								0
Balance as at 31 December 2006	14,000,000	21,462,806	4,520,599	19,753,612	3,242,388	2,383,367	4,838,074	70,200,846
Equity - minority shareholders								
Balance as at 31 December 2006	11,933	6,147	1,193	188,018	72,605	186,026	0	465,922
Total equity	14,011,933	21,468,953	4,521,792	19,941,630	3,314,993	2,569,393	4,838,074	70,666,768

(In thousands of SIT)

Disclosures relating to the statement of changes in equity are provided under item 8.4.

of the Luka Koper Group for the year 2005

(In thousands of SIT)

	Share capital	Capital reserves	Legal reserves	Other profit reserves	Net profit brought forward	Net profit for the year	Revaluation surplus	Total equity
	I/1	II/1	III/1	III/4	IV/1	V/1	VI/2	
Equity - majority shareholders								
Balance as at 1 JANUARY 2005	14,000,000	21,462,806	4,518,961	15,777,624	1,326,258	3,195,553	1,401,907	61,683,109
Transfers to equity	0	0	0	0	1,075,499	4,742,482	422,933	6,241,574
Net profit or loss for the year					1,075,499	4,742,482		4,742,482
Specific equity revaluation					1,075,499		422,933	1,499,092
Transfers within equity	0	0	660	4,094,490	1,194,894	-5,290,043	0	0
Allocation of net profit according to the resolution of the Management and the Supervisory Board			660	2,094,490		-2,095,150		0
Allocation of net profit to additional reserves according to the resolution of the General Meeting				2,000,000	90,797	-2,090,797		0
Other reallocations of equity components					1,104,097	-1,104,097		0
Transfers from equity	0	0	0	-2,201,096	0	0	0	-2,201,096
Dividend distribution				-2,201,096				-2,201,096
Balance as at 31 December 2005	14,000,000	21,462,806	4,519,621	17,671,018	2,521,152	2,647,992	1,824,840	64,647,429
Equity - minority shareholders								
Balance as at 31 December 2005	11,933	189	1,193	92,531	95,488	72,605	5,958	279,897
Total equity								
Balance as at 31 December 2005	14,011,933	21,462,995	4,520,814	17,763,549	2,616,640	2,720,597	1,830,798	64,927,326
Net profit or loss and net revenues and expenses directly allocated to equity					4,742,482	4,742,482	422,933	5,165,415

Notes to the financial statements are an integral part of these financial statements and should be read in conjunction with them.

5 Financial statements with notes

As the shares of Luka Koper, d.d. are listed on the Ljubljana Stock Exchange, the Luka Koper Group was obliged to prepare the consolidated financial statements and has been subject to reporting in accordance with IFRS since 2005. With a view to harmonising their work and strengthening the information role of the annual report, the General Meetings of Luka Koper, d.d. and its subsidiary companies adopted a resolution that, as from 1 January 2006, the stand-alone financial statements shall also be prepared in accordance with IFRS, and undertook to continue doing so for at least 5 years. The impacts of the transition made by Luka Koper, d.d. are disclosed in chapter 7 of the financial report.

Statement of conformity

Timely information of good quality is one of basic conditions for successful management of the Group. In this respect, accounting information plays a key role as it is one of few available linking mechanisms within every business entity. The financial statements have been prepared so as to present a fair view of the financial position, financial performance and cash flows of the Luka Koper Group. The accounting and reporting requirements of International Financial Reporting Standards and the Companies Act, as well as the internal regulations of companies within this Group were applied in the preparation of these financial statements. The consolidated and the stand-alone financial statements for the period ended 31 December 2006 were prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The following new accounting standards and amendments and notes thereto were not applied in preparing the 2006 financial statements:

Amendment to IAS 1 Presentation of financial statements – Capital disclosures (effective as from 1 January 2007). As provided in the amendment, the parent company and the Group will need to prepare more extensive disclosures of capital structure.

IFRS 7 Financial Instruments: Disclosures (effective as from 1 January 2007). The standard will require more extensive disclosures of the Group's financial instruments.

Basis of preparation

The financial statements are drawn up in Slovenian Tolars and rounded to the nearest thousand. Owing to the fact that on 1 January 2007 the euro was introduced as a legal tender, the balance sheet and the income statement for the year 2006 have been converted into euros. In converting items in the financial statements referred to in the previous sentence, the official exchange rate of the Bank of Slovenia on the last day of 2006 was used (EUR 1 = SIT 239.640).

The purpose of publishing the Group's consolidated and stand-alone financial statements is to provide useful information on the financial position, performance and changes in the financial position to the widest circle of users, as if the Group were only one company.

Basis of consolidation

The consolidated financial statements of the Luka Koper Group for the year ended 31 December 2006 include the financial statements of the parent company Luka Koper d.d. and its subsidiary companies, and the corresponding profits or losses of associated companies and jointly controlled companies.

(In thousands of SIT)

Subsidiary companies	Share in %	Share capital
Luka Koper Pristan, d.o.o.	100	454,057
Luka Koper INPO, d.o.o.	100	57,724
Adria-Tow, d.o.o.	50	23,866
Luka Kopar Beograd, d.o.o.	90	10,483

Luka Kopar Beograd, in which Luka Koper, d.d. holds a 90% ownership share, was not consolidated in 2006 as the company was not operating and does not materially affect the Group's financial statements.

Luka Koper, d.d. also invested in the following associated companies and jointly controlled companies, in which it has a significant influence and which are disclosed in the Group's financial statements based on the equity method, so that their profit or loss increases or decreases the overall profit or loss:

(In thousands of SIT)

In thousands of SIT as at 31 December 2006	Share in %	Value of investment	Value of revenues	Value of assets	Value of equity	Value of liabilities	Net profit or loss
Associated companies							
Intereuropa, d.d. Vojkovo nabrežje 30, Koper	24,8	11,471,244	30,216,460	54,511,441	39,904,002	14,260,266	1,116,455
Avtoservis, d.o.o. Vojkovo nabrežje 38, Koper	49	33,972	827,903	530,595	406,369	124,225	75,240
Actual I.T., d.o.o., Ferrarska ul. 14, Koper	26	143,000	3,180,885	2,739,144	239,665	2,499,479	38,017
Golf Istra, d.o.o., Obala 33, Portorož	20	28,200	0	62,957	17,790	31,290	-38,898
Jointly controlled companies							
Adriaфин, d.o.o. Vojkovo nabrežje 30, Koper	50	1,434,509	400,784	3,990,300	3,182,794	582,626	222,067
Kopinvest Netherlands B.V.	50	328,794	0	650,552	650,552	0	-1,532
Adria Transport, d.o.o. Vojkovo nabrežje 38, Koper	50	12,000	0	24,202	23,538	664	-462

The complete consolidated and unconsolidated financial statements relating to the Luka Koper Group for the reporting period 2006 comprise:

- Income statement
- Balance sheet
- Cash flow statement
- Statement of changes in equity, and
- Notes, which include the presentation of all material accounting policies and other explanatory materials.

The stand-alone financial statements of all group companies were added up and then the consolidation procedures performed. The financial statements of companies in the Group have been prepared for the same reporting date.

The harmonised accounting policies for similar transactions and other events occurring in similar circumstances have been considered. The statements have been prepared on a going concern basis. The companies in the Group have been considered to be a going concern, while their financial statements have been prepared on the accrual basis and by applying a policy relating to the consistency of presentation.

6 Accounting policies and disclosures

Luka Koper, d.d. is a large company whose shares are traded on a regulated stock exchange and is thus subject to audit also on the group level. Individual categories have been disclosed in accordance with International Financial Reporting Standards governing the disclosures. All material issues have been disclosed. The applied accounting policies and the nature and relevance of individual disclosures are prescribed by the internal acts of the Company. In respect of all material amounts contained in the financial statements, comparative data from the previous period were disclosed and subsequently included in numeric and descriptive information. The accounting policies indicated below have been consistently applied in respect of all periods mentioned in these consolidated financial statements and all companies in the Luka Koper Group.

6.1 Balance sheet

Property, plant and equipment

Property, plant and equipment have been disclosed at cost in accordance with IAS 16. Under the cost model, an asset is disclosed at its cost less any accumulated depreciation and any accumulated impairment losses. Parts of items of property, plant and equipment with different useful lives are accounted for as individual assets. Land is disclosed separately and is not subject to depreciation.

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit and not as an increase in the carrying amount of the item.

The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with IAS 17 Leases. At the commencement of the lease term, a finance lease is recognized in the balance sheet as an asset and liability at the amount equal to the fair value of the asset under lease or, if lower, to the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine. Otherwise, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognised as an asset.

Revaluation

If there is any indication that an item might be impaired, the item's recoverable amount is assessed. If the item's recoverable amount cannot be assessed, the Company determines the value of the cash-generating unit to which the item belongs. Impairment is disclosed in the income statement. If the assessment used to determine the item's recoverable amount has changed, impairment losses should be reversed. The item's impairment loss is reversed to the extent up to which the item's increased carrying amount does not exceed the carrying amount that would have been determined after deducting any depreciation should there be no impairment loss recognised in respect of the item in the previous years. Reversal of the impairment loss is recognised as income in the profit or loss.

Depreciation

The depreciation charge for each period shall be recognised in profit or loss. Depreciation of an item begins when it is available for use. Useful life of individual item of property, plant and equipment is determined by the person in charge of acquiring new items. Items of property, plant and equipment are depreciated based on the straight-line method, which results in a constant charge over the useful life of an item. The applied depreciation method is verified at the end of each financial year. As a rule, the residual value of an item is recognized only in relation to more material items, when also the item's liquidation costs are considered. Land and works of art are not subject to depreciation.

If the cost of an item of property, plant and equipment is significant, it is allocated to the item's parts, provided these have different useful lives. Each part is considered separately.

Depreciation rates applied:

• Construction facilities	od 1.5% do 5%
• Transport equipment	od 5% do 15%
• Computer equipment	od 20% do 33.3%
• Other equipment	od 10% do 33.3%

Derecognition

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

- on disposal, or
- when no future economic benefits are expected from its use or disposal.

Intangible assets

An intangible asset is initially recognized at cost. After initial recognition, intangible assets are disclosed at cost less any depreciation and any impairment losses.

Depreciation

Depreciation begins when an asset becomes available for use, i.e. when it is positioned and in the condition required for it to operate in the manner intended by the management. The carrying amount of an intangible asset is decreased based on the straight-line depreciation method and over its useful life.

The period of depreciation and the depreciation method used in respect of an intangible asset with a final useful life is reviewed at least at the end of each financial year. The period of depreciation is changed if the expected useful life of the asset differs from previous estimates.

The useful life of an intangible asset arising from contractual or other legal rights does not exceed the period of such contractual or other legal rights, but it can be shorter, depending on the period in which the Company expects to use such assets.

Impairments of intangible assets

Intangible assets are reviewed for impairment on the reporting date. If the recoverable amount of an asset is less than its carrying amount, then the latter is reduced by the former. The Company discloses the decrease as an impairment loss, which is recorded as a revaluation operating expense.

Investment property

Investment property is held to earn rentals or for capital appreciation. Investment property is measured using the cost model. Depreciation is calculated on a straight-line basis, taking into account the useful life of individual assets. Land is not subject to depreciation. Leased facilities are divided into parts with different useful lives, as in the case of proprietary facilities with useful lives spanning 20 to 50 years.

Inventories

Inventories are recorded as assets in the form of materials used for performing services and as assets held for sale. The initial measurement of inventories is performed on the basis of cost, which comprises purchase price, customs duty and other duties (except those to be recovered by the Company from the tax authorities), transport costs, loading costs, and other costs directly attributable to acquired commercial goods, materials or services. Trade discounts, other rebates and similar items are subtracted in the process of determining the cost. The value of inventories is assigned by using the weighted average cost method. When inventories are sold, their carrying amount is recognized as an expense for the period in which the revenue was recognised. The amount of expenses is disclosed in the notes to the income statement, whereas the carrying amount of inventories as at balance sheet date is disclosed in the balance sheet. We also disclose any write-downs of inventories and whether inventories have been pledged as security for liabilities.

Operating receivables

In our books of account, long-term and short-term trade receivables, and receivables due from the government and employees are recorded separately. Operating receivables also include interest receivables from the above receivables. Long-term and short-term operating receivables are initially recognised in amounts derived from related agreements or relevant bookkeeping documents. Operating receivables in foreign currencies are converted into domestic currency using the middle exchange rate of the Bank of Slovenia applicable on the last day of the business year. Interest on operating receivables increases the financial revenues.

The adequacy of the disclosed amount of a single receivable is assessed at the end of the accounting period on the basis of substantiated evidence concerning the collectability of such receivables. We make allowances for each doubtful or bad receivable or write them off entirely. The amount of allowances made in the current year is charged against revaluation operating expenses for the entire amount of such receivables. Separate records enable us to monitor the deferred taxes.

Cash

Cash comprises tolar and foreign currency balances held on accounts with foreign banks. Cash also includes bank deposits redeemable at notice and time deposits with a maturity of up to three months. The balance of cash in foreign currencies is converted into domestic currency using the middle exchange rate of the Bank of Slovenia applicable on the last day of the business year.

Deferred costs (expenses) and accrued revenues

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

Investments

Investments in associated and jointly controlled companies

In consolidated financial statements, investments in associated and jointly controlled companies are accounted for using the equity method. The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee.

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

Financial instruments: IAS 32, IAS 39

The following four groups of investments have been established in accordance with IAS 39:

- Investments held for trading (at fair value through profit or loss)
- Investments held to maturity
- Loans and receivables
- Investment available for sale (at fair value through equity)

Investments in non-marketable securities or shares are classified in a special (fifth) group and measured at cost.

Upon recognition, the finance department classifies individual investments into groups based on the purpose of their acquisition.

Initial recognition and derecognition

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

An investment is derecognised when the contractual rights to cash flows from the underlying investment expire.

Measurement

Upon recognition, an investment is measured at fair value. To this fair value, the transaction costs directly related to the acquisition of the investment are added, if this is an investment measured at amortised cost, investments measured at fair value through equity adjustment, and investments measured at cost.

The valuation of an investment depends on the group in which it is classified:

Investments classified in groups 1 and 4 are valued at fair value. Fair value is a market-based value (average share price, published daily asset value of a mutual fund unit, average bond price, etc.).

- Investments classified in groups 2 and 3 are valued at amortised cost.

Amortised cost is the amount at which the investment is measured at initial recognition minus principal repayments, plus or minus the discount or premium amortisation (using the effective interest method), and minus any reduction for impairment.

- Investments classified in the special (fifth) group are measured at cost.

Impairments

The Company assesses on each reporting date whether there is any objective evidence that an investment is impaired. If any such evidence exists, the Company is obliged to assess and determine the amount of any impairment loss. If the Company determines that it is necessary to perform an impairment of investments disclosed at amortised cost, the amount of loss is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at initial effective interest rate. The amount of loss is recognised in profit or loss. If the reasons for the impairment of such an investment cease to exist, the reversal of the impairment of the investment disclosed at amortised cost is recognized in profit or loss.

Equity

In accounting, the term equity encompasses equity capital and a liability to owners that does not fall due before a company is wound up. The Company's equity includes: called-up capital, capital reserves, profit reserves, net profit or loss for the year, net profit brought forward, and a revaluation surplus. The Company's share capital comprises preference and ordinary shares of the parent company and equity interests in subsidiaries. Other profit reserves include the non-nominated portion of capital, and have been increasing on an annual level through the allocation of net profit. The Company discloses components of equity and changes in equity in the Statement of changes in equity.

Financial liabilities

Loans received are disclosed on initial recognition at their fair value less the associated transaction costs. Over the loan repayment period, the difference between historical cost and amortised cost is disclosed in the income statement based on the effective interest rate method.

Operating liabilities

Long-term operating liabilities include security deposits received in respect of leased business premises. Received security deposits are valued in accordance with underlying agreements and strengthened in line with growth ratio of consumer prices or according to the middle exchange rate of the currency in which the deposits were stated on the last day of the financial year. Liabilities to suppliers, the government and employees are disclosed separately. Operating liabilities also include interest liabilities and liabilities for participation in profit distribution. Operating liabilities expressed in foreign currencies are converted into the domestic currency using the middle exchange rate of the Bank of Slovenia applicable on the last day of the financial year. Short-term financial liabilities are disclosed for the following groups of persons: members of the Management Board, members of the Supervisory Board and internal shareholders.

Accrued costs (expenses) and deferred revenues

Accrued costs (expenses) and deferred revenues include accrued expenses which are charged against the profit or loss for the current financial year. Payment liability is expected in the upcoming financial period. The current year's result already includes the effects of undertaken liabilities.

Income tax

Income tax is charged in accordance with Corporate Income Tax Act, which stipulates that 25% of the determined tax base is subject to taxation, and with Economic Zones Act, which provides that a tax base for investments in fixed assets located in an economic zone can be decreased by the amount of investments in fixed assets, which may not, however, exceed 50% of all investments in a given calendar year. The base for the calculation of income tax is gross profit increased by non-deductible costs and decreased by permitted tax relief. The corporate income tax liability is then calculated from such tax base.

Deferred taxes

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

6.2 Income statement

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

Revenues

Revenues are recognised when it can be reasonably expected they will result in receipts, provided they were not realised as they occurred and they can be reliably measured. Revenues are recognised based on a method relating to the state of completion on the balance sheet date. According to this method, revenues are recognised in the accounting period in which the services were performed. All amounts associated with relevant types of revenue recognised in the period are also disclosed.

Expenses

Expenses are classified as operating or financial expenses. Costs are recognised as expenses in the period in which they occurred. They are classified by their type and recorded and disclosed in three-digit accounts according to their natural functions and functional groups. The Company also discloses all costs that are subject to disclosure pursuant to the Companies Act (ZGD-1) and the framework for the preparation and disclosure of financial statements.

Accounting for government grants and disclosure of government assistance

The assets assigned by others for the purpose of acquiring fixed assets are recorded as deferred revenue (long-term accrued costs (expenses) and deferred revenues) that the Company consistently recognises as revenue over the useful life of the asset concerned [20.26].

Employee benefits

Other long-term benefits include jubilee benefits and termination benefits on retirement. These benefits are measured using the simplified method of accounting, which requires the valuation of actuary liability in accordance with the anticipated growth of wages and salaries from the date of valuation until the foreseen retirement of an employee. This requires the accrual of remuneration in proportion to the work performed. A liability is recognised in the amount of the present value of expected future expenditures. Fluctuation and increase of salaries and wages in real terms are also evaluated in this measurement.

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

Borrowing costs

Borrowing costs are interest and other costs incurred by the Company in connection with the borrowing of funds. The Company recognises the borrowing costs as expenses in the period in which they are incurred regardless of how the borrowings are applied.

6.3 Cash flow statement

The Group reports on cash flows using the indirect method based on balance sheet items as of 31 December 2006 and 31 December 2005, on the income statement for the year 2006, and on additional information required for inflow and outflow adjustment. Net profit or loss is adjusted by effects of transactions of a non-cash nature, all deferred revenues or costs or accrued costs that will give rise to expenses and receipts in future operations, and by revenue and expense items related to cash flows from investing activities.

6.4 Statement of changes in equity

The statement of changes in equity discloses the changes in individual components of equity during the financial year, including utilisation of net profit and covering of losses.

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

6.5 Accounting policies, changes in accounting estimates and errors

Estimates

In accordance with IFRS 1.34, we adopted the estimates that were in line with previous accounting rules:

- The estimate of allowances for receivables is formed on the basis of past experience and expectations for the accounting period. Allowances for receivables are recorded during the year in a certain percentage of planned realisation by debiting revaluation operating expenses and crediting the corresponding allowance for receivables during the financial period.

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

6.6 Segment reporting

The Luka Koper Group has not defined any business or geographical segments. None of the services performed within the Group differ significantly according to risks and returns. The subsidiary companies do not constitute 10% of the Group's value, neither in terms of assets nor profit.

6.7 Assessments and sources of uncertainties

Risk management

The activities of the Luka Koper Group are organised through the parent company and subsidiary companies and are related to general and specific operating risks that need to be appropriately managed. Appropriate risk management is ensured by timely identification and control of risks, which is based on guidelines and policies defined in the documents governing the integrated management of the Group and in rules and other acts.

Based on the assumptions considered in respect of the Group's future operations, the Management estimates that for the year 2006 there are no uncertainties which could cause significant changes.

7 Disclosure of impacts relating to the transition to IFRS at Luka Koper, d.d.

7.1 Opening balance sheet as at 1 January 2005 and the balance sheet as at 31 December 2005

The compilation of the opening balance sheet on the day of transition to IFRS, i.e. on 1 January 2005, was the basis for preparation of first-time reporting in accordance with IFRS. All business events relating to the economic categories disclosed in the opening balance sheet have been considered in line with IFRS. On the basis thereof, relevant recognitions, derecognitions, reclassifications, and/or other measurements of economic categories had to be performed.

The differences arising from the adjustments of items in the opening balance sheet were recognised under earnings brought forward (retained earnings) or under other applicable equity item.

The standard requires that a company applies the same accounting policies in its opening balance sheet and for all periods included in first-time reporting. These accounting policies have to be in compliance with each IFRS (except for the offered exceptions) applicable for the period for which a company performs first-time reporting in accordance with IFRS. The accounting policies applied by a company in its IFRS-compliant opening balance sheet may differ from the policies applied on the same date under previously applicable accounting rules. In compiling the opening balance sheet, the standard provides companies with two options:

- consistent retrospective application of all IFRS provisions, except for compulsory exceptions, which were considered, or
- consideration of certain exceptions from the retrospective use of IFRS. IFRS 1 offers 10 possible exceptions in different areas relating to disclosure of economic categories.

Luka Koper, d.d. has considered the following exceptions from the retrospective use of IFRS:

Consideration of previously contextually defined financial instruments

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

Fair value or other revaluation as initial cost

In order to facilitate the transition to IFRS, we applied the exception under IFRS 1.17, which permits companies to use the revaluated value (revaluation of fixed assets) in accordance with former national accounting standards (for property, plant and equipment at or before the date of transition to IFRS) as the initial cost of items of property, plant and equipment on the date of transition, instead of their retrospective application.

The revaluation is considered a cost at the revaluation date if, on that date, the revaluation was generally comparable to the fair value or cost or to the revaluation in accordance with IFRS, and adjusted so as to reflect, e.g. the changes in the general or specific price index.

Estimates

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

In order to present comparative information, the financial statements of Luka Koper, d.d. prepared in accordance with Slovenian Accounting Standards were adjusted so that they correspond to International Financial Reporting Standards (IFRS).

Balance sheet

(In thousands of SIT)

	Luka Koper, d.d., (SAS)	IFRS-related adjustments	Luka Koper, d.d. (IFRS)	Luka Koper, d.d. (SAS)	IFRS-related adjustments	Luka Koper, d.d. (IFRS)	Disclo- sure
	31.12.2004		31.12.2004	31.12.2005		31.12.2005	
Assets	74,164,428	678,600	74,843,028	74,927,437	708,755	75,636,192	
A. Non-current assets	61,028,191	533,419	61,561,610	61,714,969	474,659	62,189,628	
I. Intangible assets and long-term deferred costs (expenses) and accrued revenues	610,630	-104,069	506,561	334,182	-72,419	261,763	1
1. Long-term property rights	610,630	-104,069	506,561	334,182	-72,419	261,763	
II. Property, plant and equipment	34,638,392	104,069	34,742,461	35,564,135	-1,850,398	33,713,737	2
1. Land and buildings	26,976,007	104,069	27,080,076	28,514,067	-1,850,398	26,663,669	
2. Manufacturing plant and equipment	5,197,713	0	5,197,713	6,273,936	0	6,273,936	
3. Other plant and equipment	11,593	0	11,593	10,742	0	10,742	
4. Property, plant and equipment being acquired	2,453,079	0	2,453,079	765,390	0	765,390	
III. Investment property	0	0	0	0	1,922,817	1,922,817	1,2
IV. Long-term investments	25,776,560	442,330	26,218,890	25,733,856	394,198	26,128,054	3
1. Long-term investments, excluding loans	23,212,563	442,330	23,654,893	23,653,540	394,198	24,047,738	
a) Shares and stakes in Group companies	1,370,610	-362,101	1,008,509	1,651,522	-643,013	1,008,509	
b) Shares and stakes in associated companies	12,790,111	-919,597	11,870,514	13,814,976	-1,161,811	12,653,165	
c) Other shares and stakes	9,051,842	1,724,028	10,775,870	8,187,042	2,199,022	10,386,064	
1. Other shares and stakes at fair value	2,747,538	1,724,028	4,471,566	1,976,310	2,199,022	4,175,332	
2. Other shares and stakes at cost	6,304,304	0	6,304,304	6,210,732	0	6,210,732	
2. Long-term loans	2,563,997	0	2,563,997	2,080,316	0	2,080,316	
V. Long-term operating receivables	2,609	0	2,609	2,804	0	2,804	
VI. Deferred tax assets		91,089	91,089	79,992	80,461	160,453	4
B. Current assets	13,115,478	145,181	13,260,659	13,199,478	234,096	13,433,574	5
III. Short-term investments	8,253,206	145,181	8,398,387	8,562,660	-271,611	8,291,049	6,7
1. Short-term investments, excluding loans	2,175,204	145,181	2,320,385	3,953,953	234,096	4,188,049	6
b. Other shares and stakes	791,447	145,181	936,628	3,649,768	234,096	3,883,864	
1. At fair value through profit or loss	225,822	0	225,822	2,725,703	0	2,725,703	
2. At fair value through equity	565,625	145,181	710,806	924,065	234,096	1,158,161	
c. Other short-term investments	1,383,757	0	1,383,757	304,185	0	304,185	
2. Short-term loans	6,038,002	0	6,078,002	4,608,707	-505,707	4,103,000	7
IV. Short-term operating receivables	4,631,664	0	4,631,664	4,308,620	0	4,308,620	
V. Cash	230,608	0	230,608	328,198	505,707	833,905	7
C. Deferred costs (expenses) and accrued revenues	20,759	0	20,759	12,990	0	12,990	

(In thousands of SIT)

	Luka Koper, d.d. (SAS)	IFRS-related adjustments	Luka Koper, d.d. (IFRS)	Luka Koper, d.d. (SAS)	IFRS-related adjustments	Luka Koper, d.d. (IFRS)	Disclo- sure
	31.12.2004		31.12.2004	31.12.2005		31.12.2005	
Liabilities	74,164,428	678,600	74,843,028	74,927,437	708,755	75,636,192	
A. Capital	60,604,557	-153,059	60,451,498	63,115,568	-221,364	62,894,204	
Equity – majority shareholder					0		
I. Called-up capital	14,000,000	0	14,000,000	14,000,000	0	14,000,000	
1. Share capital	14,000,000	0	14,000,000	14,000,000	0	14,000,000	
II. Capital reserves	0	21,462,806	21,462,806	0	21,462,806	21,462,806	8
III. Profit reserves	20,274,496	0	20,274,496	22,167,891	0	22,167,891	
IV. Revaluation surplus	22,744,504	-21,342,598	1,401,906	23,267,630	-21,462,806	1,824,840	9
1. Revaluation for deferred tax purposes	1,281,698	-1,281,698	0	0	-608,279	-608,279	
2. General equity revaluation adjustment	21,462,806	-21,462,806	0	21,462,806	-21,462,806	0	8
3. Specific equity revaluation adjustment	0	1,401,906	1,401,906	1,804,824	628,295	2,433,119	
V. Net profit or loss brought forward	1,494,761	-273,267	1,221,494	1,585,557	-241,380	1,344,177	10
VI. Net profit or loss for the year	2,090,796	0	2,090,796	2,094,490	0	2,094,490	
Equity – minority shareholders					0		
B. Provisions and long-term accrued costs (expenses) and deferred revenues	320,532	364,356	684,888	406,081	321,840	727,921	11
1. Provisions for pensions and similar liabilities	0	364,356	364,356	0	321,840	321,840	
2. Other provisions	320,532	0	320,532	406,081	0	345,505	
3. Long-term accrued costs (expenses) and deferred revenues	0	0	0	0	0	60,576	
C. Long-term liabilities	3,577,692	467,303	4,044,995	7,950,635	608,279	8,558,914	12
I. Long-term financial liabilities	3,577,692	0	3,577,692	7,939,185	0	7,939,185	
II. Long-term operating liabilities	0	0	0	11,450	0	11,450	
5. Other long-term operating liabilities	0	0	0	11,450	0	11,450	
III. Deferred tax liabilities	0	467,303	467,303	0	608,279	608,279	12
D. Short-term liabilities	9,429,293	0	9,429,293	3,234,406	0	3,234,406	
I. Liabilities included in disposal groups	0	0	0	0	0	0	
II. Short-term financial liabilities	4,178,346	0	4,178,346	284,293	0	284,293	
III. Short-term operating liabilities	5,250,947	0	5,250,947	2,950,113	0	2,950,113	
E. Short-term accrued costs (expenses) and deferred revenues	232,354	0	232,354	220,747	0	220,747	

7.2 Explanation of the transition to IFRS

Intangible assets and property, plant and equipment - D 1, 2

In respect of Luka Koper, d.d. all intangible assets that have been deemed not recognisable by content in accordance with the provisions of IAS 38 have been excluded. The estimate was prepared on the basis of the reviewed fixed assets register in relation to substantive rights and intangible assets in being acquired.

All investments in foreign fixed assets that were recorded under intangible assets were transferred to the items of property, plant and equipment. On 31 December 2005, the value of these investments stood at SIT 72,419 thousand. On 31 December 2005, the value of items of property, plant and equipment was decreased by the value of buildings that were classified as investment property and are subject to operating lease in the total carrying amount of SIT 1,922,817 thousand.

Investments - D 3, 6, 7, 9

On transition to IFRS, the value of long-term and short-term investments was increased to their fair values. On the asset side of the balance sheet, long-term and short-term investments were increased by the resulting difference and classified as available for sale, while on the liability side, the revaluation surplus was increased. On 31 December 2005, the value of increased long-term investment stood at SIT 2,199,022 thousand, while the value of short-term investments rose by SIT 234,096 thousand.

On account of eliminating the equity method, the value of investments in subsidiary companies decreased by the cost as at 1 January 2002. The company also eliminated the specific equity revaluation adjustment, which equalled SIT 643,013 thousand on 31 December 2005. Profit or loss of subsidiary companies is recorded under off-balance sheet items. For the same reason, the value of investments in subsidiary companies was also decreased by the cost as at 1 January 2002, and the specific equity revaluation adjustment, which equalled SIT 1,161,811 thousand on 31 December 2005, was eliminated.

Capital reserves - D 8

The balance of general equity revaluation adjustment, which on 31 December 2005 stood at SIT 21,462,806 thousand, was transferred to capital reserves.

Provisions - D 9

In accordance with IAS 19, which governs other long-term employee benefits (termination benefits on retirement, jubilee benefits), the Company followed an actuarial calculation and formed long-term provisions for severance pays and similar liabilities, which stood at SIT 321,840 thousand on 31 December 2005, and decreased the profit brought forward from the transition to IFRS by the same amount.

Deferred taxes - D 4, 12

By applying the balance sheet liability method, deferred taxes arising from the differences between financial statements prepared in accordance with SAS and financial statements compiled in accordance with IFRS were divided into deferred taxes relating to items with direct influence on profit brought forward, and deferred taxes relating to items influencing other equity items.

In connection with the profit brought forward as a result from the transition to IFRS it was determined that the profit brought forward decreased by provisions formed in respect of severance pays and employee jubilee benefits in the amount of SIT 241,380 thousand, meaning that a deferred tax asset relating to the transition to IFRS equalled SIT 80,461 thousand. The tax rate applied in the calculation of deferred taxes was 25%.

Deferred taxes arising from the equity revaluation that was performed for the purpose of assessing financial assets available for sale at their fair value are disclosed separately. Tax in the amount of 25% represents the deferred tax liabilities resulting from the transition to IFRS as temporary differences in the amount of SIT 608,279 thousand.

7.3 Presentation of effects relating to the adjustment of accounting items to IFRS

Income statement

Considering all adjustments of items resulting from the transition to IFRS, net profit or loss for 2005 decreased by SIT 241,380 thousand.

Balance sheet

The effects of the adjustment of the balance sheet items due to the transition to IFRS resulted, in comparison with SAS, in the increase of assets or liabilities as at 31 December 2005 by the amount of SIT 708,755 thousand.

Changes in **non-current and current assets** occurred due to the transfer of investments in foreign fixed assets, which had been recorded under intangible assets, to items of property, plant and equipment. Long-term and short-term investments increased as a result of their valuation at fair value, which on 31 December 2005 exceeded their SAS carrying amount. Investments in subsidiary and associated companies decreased due to elimination of accumulated gains that had been recorded in the SAS balance sheet based on the equity method. The difference in the amount of SIT 708,755 thousand was used to increase the balance sheet total of assets.

Liabilities increased due to the effects on equity (most important was the increase of revaluation surplus due to the revaluation of investments at fair value), the formation of provisions for severance pays and jubilee benefits, and deferred tax liabilities resulting from the transition to IFRS in the amount of SIT 708,755 thousand.

Effects related to equity

(In thousands of SIT)

I.	SAS equity balance as at 31 December 2005	63,115,568
2.	Increase in capital reserves due to transfer from general equity revaluation adjustments item	21,462,806
3.	Decrease in general equity revaluation adjustment	-21,462,806
4.	Decrease in profit brought forward due to transition to IFRS	-241,380
5.	Elimination of specific equity revaluation adjustment relating to profit of subsidiary and associated companies	-1,804,824
6.	Formation of surplus from revaluation of investments available for sale	1.824.840
	The difference represents an increase in equity by	-221.364
II.	IFRS equity balance as at 31 December 2005	62,894,204

Cash flow statement

The Company reports its cash flows from operating activities based on the indirect method also after the transition to IFRS. No cash flow effects occurred due to the transition to IFRS, while the net cash flow position for the period equalled the cash flow position determined in accordance with SAS. The differences determined from the transition were reallocated to individual categories.

8 Notes to the financial statements for the financial year ended 31 December 2006, prepared in accordance with IFRS

8.1 Disclosures relating to the income statement

The income statement has been prepared in accordance with Format I. Costs and revenues are disclosed within the three-digit account. Costs are disclosed by their natural function and functional groups. Detailed explanations of revenues and costs as compared to the planned amounts and the previous period have been given in the Business Report of the Luka Koper Group.

8.1.1 Operating revenues

Revenues were recognised based on the method relating to the completion percentage on the balance sheet date. Revenues were recognised for the accounting period in which the services were completed. In 2006, individual companies in the Luka Koper Group, between them, generated SIT 666,900 thousand in operating revenues.

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	2006	2005	2006	2005
Operating revenues	23,332,260	20,693,886	25,327,138	22,192,886
1. Net sales revenues	22,566,120	19,835,269	24,405,972	21,199,029
Revenues from sales in the domestic market	5,053,975	3,429,814	5,463,550	3,547,508
Revenues from services sold in the domestic market	4,424,402	2,716,960	4,829,301	2,836,369
Revenues from merchandise sold in the domestic market	9,779	3,518	9,779	3,572
Revenues from rents in the domestic market	619,794	709,336	624,470	707,567
Revenues from sales in the foreign market	17,512,145	16,405,455	18,942,422	17,651,521
Revenues from services sold in the foreign market	17,501,660	16,404,963	18,931,938	17,651,029
Revenues from merchandise sold in the foreign market	8,253	0	8,253	0
Revenues from rents in the foreign market	2,232	492	2,231	492
2. Capitalised own products and own services	0	0	770	0
3. Other operating revenues	766,140	858,617	920,396	993,857
Elimination of provisions	37,500	36,317	37,506	36,317
Other operating revenues (subsidies, grants, etc.)	600,483	200,188	751,869	335,454
Revaluation operating revenues	128,157	622,112	131,021	622,086

8.1.2 Operating costs

Operating costs are disclosed by functional groups and their natural functions with the three-digit account.

Costs by functional groups

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	2006	2005	2006	2005
Production costs	12,111,408	10,941,877	13,107,492	11,804,003
Costs of goods and material sold	0	1,002	2,353	2,401
Costs of material	975,718	801,303	1,149,378	932,703
Costs of services	5,509,444	4,989,819	5,122,772	4,595,962
Depreciation	2,275,618	2,164,152	2,498,827	2,387,927
Labour costs	3,350,628	2,985,600	4,334,162	3,885,010
Sales costs	611,610	614,870	611,610	614,870
Costs of material	7,792	8,109	7,792	8,109
Costs of services	355,956	300,549	355,956	300,549
Depreciation	6,712	9,653	6,712	9,653
Labour costs	182,239	213,739	182,239	213,739
Other costs	58,912	82,820	58,912	82,820
General costs	6,609,976	5,240,885	6,959,058	5,381,030
Costs of material	249,578	234,596	257,659	241,796
Costs of services	1,566,927	1,250,572	1,675,968	1,350,684
Allowances	1,006,648	1,022,470	1,013,169	1,031,657
Depreciation	865,280	989,467	871,801	998,654
Depreciation of investment property	86,153	0	86,153	0
Revaluation operating expenses	36,209	2,945	36,209	2,945
Revaluation operating expenses of operating current assets	19,005	30,057	19,005	30,057
Labour costs	1,735,864	1,534,677	1,908,840	1,590,688
Other costs	2,050,959	1,198,571	2,103,422	1,166,204
Operating costs	19,332,994	16,797,632	20,678,160	17,799,903

Costs by natural functions

Costs by natural functions are disclosed within the three-digit account. If it not possible to establish the cost type based on the account content, an explanation is provided for important items.

8.1.2.1 Costs of goods, material and services

Costs of goods and material

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	2006	2005	2006	2005
Costs of material	1,233,114	1,044,007	1,414,706	1,183,270
Costs of auxiliary materials	313,826	214,516	355,308	254,297
Costs of energy	814,067	709,531	943,891	802,396
Costs of office supplies and specialised literature	37,665	32,430	42,875	37,189
Other cost of materials	67,555	87,530	72,632	89,388
Costs of goods	0	1,002	2,353	2,401
Costs of goods and material sold	0	1,002	2,353	2,401

Costs of services

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	2006	2005	2006	2005
Costs of services	7,432,300	6,540,941	7,154,668	6,246,531
Costs of physical services	2,232,668	1,915,404	2,082,457	1,784,518
Costs of transport services	854,214	602,461	861,058	609,746
Costs of maintenance services	2,130,064	1,729,391	1,916,552	1,515,893
Rents	372,040	326,738	371,972	323,942
Reimbursement of work-related costs to employees	112,595	84,688	120,529	92,931
Payment processing costs and insurance premiums	82,851	80,669	111,146	108,554
Costs of professional and personal services	119,071	161,784	134,495	177,059
Costs of fairs, advertising and entertainment	184,725	140,615	181,567	141,737
Costs of services performed by individuals	52,057	93,738	55,020	99,473
Other costs of services	1,292,014	1,405,453	1,319,872	1,392,678

Costs of professional services also include the costs of auditing. Total amount of all auditing costs for the year 2006 totalled SIT 8,488 thousands. The amount of SIT 7,139 thousands relates to the annual report audit, while SIT 1,348 thousands was used for the review of the Luka Koper Group's consolidated financial statements after the transition to IFRS.

Costs of other services in 2006 included the public utility service costs in the amount of SIT 94,059 thousand, IT support costs in the amount of SIT 668,502 thousand, and costs of the other services in the amount of SIT 557,311 thousand.

8.1.2.2 Labour costs

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	2006	2005	2006	2005
Labour costs	5,268,731	4,734,017	6,425,241	5,689,439
Salaries and wages	3,302,779	2,867,394	3,989,168	3,456,077
Salary and wage compensations	531,803	488,682	659,248	612,765
Supplementary pension insurance for employees paid	144,443	128,758	179,781	157,225
Holiday allowance, reimbursements and other costs	464,708	496,082	631,115	588,766
Employer's contributions on salaries, wages and expenses	606,417	534,344	738,600	648,782
Other employer's contributions from employee remunerations	218,579	218,757	227,329	225,824

In 2005, the total gross holiday allowance in the Luka Koper Group stood at SIT 169,138 thousand, while in 2006 this amount rose to SIT 179,828 thousand. In total, reimbursements of costs and holiday allowance remained below the thresholds prescribed by the regulation issued by the Government of the Republic of Slovenia.

As the subsidiary company Adria-Tow, d.o.o., joined the supplementary pension insurance scheme, the costs of supplementary pension insurance in 2006 increased to SIT 179,781 thousand.

In 2006, all employees of the Luka Koper Group received a 13th salary in the total amount of SIT 320,679 thousand.

Employee-related information

On 31 December 2006, the number of employees in the Luka Koper Group stood at 963, which is 13 more than on the same date of 2005. 64 persons were employed based on individual employment contracts.

The number of employees and the educational structure in 2006 in comparison to 2005

Level of education	Luka Koper, d.d.		Luka Koper, d.d.		Luka Koper Group		Luka Koper Group	
	Number of employees	Share in %	Number of employees	Share in %	Number of employees	Share in %	Number of employees	Share in %
	2006		2005		2006		2005	
Doctor of science	1	0.14	2	0.29	1	0.10	2	0.21
Master of science	9	1.30	9	1.33	9	0.94	9	0.95
University education	147	21.24	132	19.44	168	17.44	149	15.68
Higher education	36	5.21	41	6.04	45	4.67	49	5.16
Secondary education	229	33.10	219	32.25	257	26.69	250	26.32
Qualified workers	173	25.00	168	24.74	241	25.03	232	24.42
Unqualified workers	97	14.02	108	15.91	242	25.13	259	27.26
Total number as at 31 December	692	100	679	100	963	100	950	100

The receipts awarded to the members of the Management, to employees that are not subject to the tariff part of the collective labour agreement, and to members of the Supervisory Board in 2006

(In thousands of SIT)

Employee groups	Gross salary – fixed and variable portion	Holiday allowance and jubilee benefits	Other receipts and bonuses	Total
Members of the Management Board (president, deputy president and two members)	133,602	740	4,219	138,561
Members of the Supervisory Board (9 members)	0	0	7,717	7,717
Employees with individual employment contracts employed in Luka Koper, d.d.	706,960	9,779	26,903	743,642
Employees with individual employment contracts employed in subsidiary companies	73,069	1,715	0	74,784
Total	913,631	12,234	38,839	964,704

List of names of the Management Board members and their receipts in 2006

(In thousands of SIT)

Surname and name	Fixed portion of salary	Holiday allowance	Benefits for 2005 variable portion	Bonuses	Total
Časar Robert – President of the Management Board	32,522	185	2,384	0	35,091
Babič Aldo, Msc. – Deputy president of the Management Board	31,600	185	2,218	1,056	35,059
Babič Marjan, Msc. – Member of the Management Board	30,036	185	3,289	1,603	35,113
Krumenaker Pavle – Member of the Management Board	29,468	185	2,085	1,560	33,298
Total	123,626	740	9,976	4,219	138,561

Luka Koper, d.d. or any of its subsidiaries did not grant in 2006 any loans to the members of the Management Board, Supervisory Board, other employees of the company, and to employees with individual employment contracts that are not subject to the tariff part of the collective labour agreement.

8.1.2.3 Write-downs

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	2006	2005	2006	2005
Write-downs	3,288,977	3,196,274	3,518,708	3,429,237
Depreciation of fixed assets	3,147,609	3,163,272	3,451,590	3,385,098
Depreciation of investment property	86,153	0	86,153	0
Revaluation operating expenses for property, plant and equipment	36,209	2,945	36,724	3,042
Revaluation operating expenses for operating current assets	19,005	30,057	30,394	41,097

8.1.2.4 Other costs

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	2006	2005	2006	2005
Other costs	1,794,073	1,281,391	1,808,249	1,249,025
Charges unrelated to labour costs	1,545,366	715,425	1,555,398	721,247
Expenditure for environment protection	107,180	270,332	107,911	231,268
Awards and scholarships to students	1,545	6,768	1,671	6,836
Other costs	139,981	288,866	143,269	289,674

8.1.2.5 Long-term provisions

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	2006	2005	2006	2005
Long-term provisions	315,797	0	354,234	0
Provisions for damages	268,797	0	268,797	0
Provisions for severance pays and jubilee benefits	47,000	0	85,437	0

Disclosures relating to the balance of long-term provisions and changes therein are provided under item 8.2.4.

8.1.3 Financial revenues

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	2006	2005	2006	2005
Total financial revenues	1,838,190	1,936,907	1,461,422	2,259,335
1. Financial revenues from shares	1,399,645	1,288,460	901,117	1,559,999
Financial revenues from shares in Group companies	0	0	0	0
Financial revenues from shares in associated companies	929,984	465,725	431,453	239,279
Financial revenues from shares in other companies	383,645	691,157	383,646	1,189,142
Financial revenues from other investments	86,016	131,578	86,018	131,578
2. Financial revenues from loans granted	333,453	437,758	449,871	417,271
Financial revenues from loans granted to Group companies	0	0	116,418	0
Financial revenues from loans granted to others	333,453	437,758	333,453	417,271
3. Financial revenues from operating receivables	105,092	210,689	110,434	282,065
Financial revenues from operating receivables due from Group companies	0	0	0	0
Financial revenues from operating receivables due from associated companies	0	0	0	0
Financial revenues from operating receivables due from others	32,141	24,988	35,192	30,316
Exchange rate gains	72,952	185,701	75,242	251,749

Financial revenues

Financial revenues of the Luka Koper Group amounted to SIT 1,461,422 thousand in 2006. The financial revenues of the parent company, increased by dividends received from the associated company Intereuropa, d.d. and by the participation in the profit of AdriaFin, d.o.o., which in total stood at SIT 929,984 thousand, accounted for the majority of financial revenues. In 2006, revenues from loans granted decreased by 18% and equalled SIT 333,453 thousand. The decrease can be mostly attributed to a significantly lower amount of such investments and to a universal trend of lower interest rates.

Investment policy

In 2007, no major activities have been planned in the area of allocating financial surpluses, as these will be earmarked for developing and supporting the Company's core activity and ambitious investments. Based on the need for financial assets and the market situation, the Company will decide in 2007 whether to sell certain financial investments.

8.1.4 Financial expenses

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	2006	2005	2006	2005
Total financial expenses	460,212	735,168	501,249	830,401
1. Financial expenses for impairments and write-offs of investments	20,058	294,670	22,190	294,670
2. Financial expenses for financial liabilities	267,797	256,505	299,852	239,640
Financial expenses for loans obtained from Group companies	1,693	32,823	0	0
Financial expenses for loans obtained from associated companies	1,029	5,835	1,029	5,835
Financial expenses for loans obtained from banks	265,039	216,393	265,246	222,779
Financial expenses for bonds issued	36	1,454	36	1,454
Financial expenses for other financial liabilities	0	0	33,541	9,572
3. Financial expenses for operating liabilities	172,357	183,993	179,206	296,091
Financial expenses for Group companies	0	0	0	0
Financial expenses for suppliers and notes payable	0	0	0	0
Financial expenses for other operating liabilities	15,686	787	15,693	795
Exchange rate losses	156,671	183,206	163,513	295,296

Financial expenses of the Luka Koper Group amounted to SIT 501,248 thousand in 2006. The company Luka Koper, d.d. accounted for most of these expenses. In 2006, total financial expenses that equalled SIT 460,212 thousand decreased by 37.4% as compared to the previous financial year. The decrease can be mainly attributed to the 2005 impairment of investments, which is almost entirely a reflection of the fact the none of the investments had shown any indication of impairment. Expenses for financial liabilities rose 4%, totalling SIT 267,797 thousand.

8.1.5 Pre-tax profit

Pre-tax profit of Luka Koper, d.d. stood at SIT 5,377,244 thousand, a 5.5% increase over 2005. The Company's operating profit rose by 3 percent. However, in comparison to 2005, pre-tax profit of the Luka Koper Group that totalled SIT 5,609,153 thousand decreased by 3.6 percent, mostly due to lower financial revenues from the profit of associated companies in 2006 and dividend distribution and share in profits of associated companies, which led to an increase in financial revenues already at the parent company, in line with the equity method for valuation of investment in associated and jointly controlled companies.

8.1.6 Income tax

All companies in the Group calculated the income tax in accordance with Corporate Income Tax Act, while in respect of Luka Koper, d.d. Economic Zones Act, which provides for tax benefits in relation to investments in fixed assets intended for development and expansion of activities in an economic zone, was also applied. The amount of the resulting tax benefits for 2006 is indicated in the decision issued by the tax authority.

Corporate income tax calculation

No. in form	Luka Koper Group		Luka Koper, d.d.		Luka Koper INPO, d.o.o.		Luka Koper Pristan, d.o.o.		Adria-Tow, d.o.o.	
	Calculation of corporate income tax		2006	2005	2006	2005	2006	2005	2006	2005
			For zone activity							
1.	Revenues determined in line with accounting regulations	25,042,973	22,630,793	1,331,551	1,331,551	232,596	159,379	993,014	835,875	
2.	Adjustment of revenues to the level of tax deductible revenues - decrease	1,290,610	465,723	0	0	18	0	2,927	0	
3.	Adjustment of revenues to the level of tax deductible revenues - increase	0	19,712	0	0	0	0	0	0	
4.	Tax deductible revenues	23,772,363	22,184,782	1,331,551	1,331,551	232,578	159,379	990,087	835,875	
5.	Expenses determined in line with accounting regulations	19,683,325	17,532,800	1,133,513	1,133,513	207,325	144,245	607,450	604,905	
6.	Adjustment of expenses to the level of tax deductible expenses - decrease	1,128,328	702,425	34,513	34,513	2,581	3,717	25,387	9,897	
7.	Adjustment of expenses to the level of tax deductible expenses - increase	133,250	5,804	0	0	0	0	0	0	
8.	Tax deductible expenses	18,688,247	16,836,179	1,099,000	1,099,000	204,744	140,528	582,063	595,008	
9.	Difference between tax deductible revenues and taxable expenses	5,084,115	5,348,603	232,551	232,551	27,834	18,851	408,025	240,867	
12.	Increase of tax base	0	2,877	0	0	2,026	0	56	110,740	
13.	Tax base	5,084,115	5,351,479	232,551	232,551	29,859	18,851	408,081	351,607	
15.	Decrease of tax base and tax reliefs	2,476,307	1,395,463	232,551	232,551	6,109	10,046	345,224	410	
16.	Income subject to tax [25%]	2,607,808	3,956,016	0	0	23,750	8,805	62,857	351,197	
17.	Income tax	651,952	989,004	35,483	0	5,937	2,201	15,714	87,799	
	Effective tax rate	12,1	19,4	11	0	23,5	14,5	4,1	38	
	Deferred taxes	56,287	79,992	2,376	0	229	271	2,202	2,039	

Since no consolidated tax calculation is performed by the Luka Koper Group, data is disclosed for the calculation of income tax of individual subsidiary companies. The calculation of income tax for activities outside Luka Koper, d.d.'s zone, does not disclose the tax base and does not influence the final calculation of income tax.

8.1.6.1 Deferred taxes

Deferred taxes, as means of accounting recognition of tax effects in relation to accounting and taxable profit, totalled SIT 61,094 thousand. They are a result of temporary differences relating to tax non-deductible expenses arising from allowances for receivables and formation of long-term provisions for termination benefits on retirement and jubilee benefits, and lead to an increase in net profit or loss.

8.1.7 Net profit or loss

Net profit of Luka Koper, d.d. equalled SIT 4,781,579 thousand, a 14-percent increase over 2005. The increase is a result of better operating performance and lower effective tax rate, which stood at 19.4% in 2005, but was reduced to 12.1% in 2006 due to tax benefits in relation to investments in the economic zone.

Owing to lower effective tax rates for the parent company and the subsidiary company Adria-Tow (4%), which intensified the investments in equipment and exercised the tax benefits, the Group's net profit rose 0.7% as compared to 2005.

8.1.8 Basic and diluted earnings per share

This information aims to present a measure for shares of each ordinary share in the Company's performance, adjusted for effect of all potential ordinary shares.

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	2006	2005	2006	2005
Net profit or loss	4,329,784	3,737,186	4,323,338	4,290,686
Average number of ordinary shares	7,140,000	7,140,000	7,140,000	7,140,000
Basic earnings per share	606.41	523.42	605.51	600.94
Net profit or loss	4,781,579	4,188,981	4,775,134	4,742,482
Average number of all shares	14,000,000	14,000,000	14,000,000	14,000,000
Diluted earnings per share	341.54	299.21	341.08	338.75

In calculating basic earnings per share, the net profit or loss decreased by the amount of estimated fixed and variable dividends earmarked for distribution to owners of preference shares was used as a numerator, while the average number of ordinary shares was used for denominator.

In calculating diluted earnings per share, the net profit was used as a numerator and the average number of all share was used for denominator. The calculation is only informative and assumes that a given number of preference shares can be exchanged for an equal number of ordinary shares.

8.2 Disclosures relating to the balance sheet

8.2.1 Non-current assets

8.2.1.1 Intangible assets

(In thousands of SIT)

		Luka Koper, d.d.		Luka Koper Group	
		31.12.2006	31.12.2005	31.12.2006	31.12.2005
I.	Intangible assets	155,430	261,763	155,664	261,983
3.	Long-term property rights	155,430	261,763	155,664	261,983

The useful lives of intangible assets recorded in our books of account are final. A 10% depreciation rate and the straight-line depreciation method are applied. Intangible assets were not impaired in 2006. The changes in intangible fixed assets and allowances made in relation to them are disclosed in the attached table for 2006, while the 2005 figures are provided for comparison.

8.2.1.2 Property, plant and equipment

(In thousands of SIT)

		Luka Koper, d.d.		Luka Koper Group	
		31.12.2006	31.12.2005	31.12.2006	31.12.2005
II.	Property, plant and equipment	35,772,712	33,713,737	39,128,392	35,452,992
1.	Land and buildings	26,189,103	26,663,669	26,918,593	27,407,022
a.	Land	465,863	425,739	465,863	425,739
b.	Buildings	25,723,240	26,237,930	26,452,730	26,981,283
2.	Equipment and machinery	7,164,623	6,273,930	9,788,413	7,266,372
3.	Other plant and equipment	12,343	10,742	14,743	13,142
4.	Fixed assets being acquired	2,406,643	765,390	2,406,643	766,456

Luka Koper Group discloses items of property, plant and equipment at cost reduced by accumulated depreciation and impairments. In comparison with 2005, the depreciation rates were not amended in 2006. Likewise, none of the companies performed impairments of fixed assets.

We have checked whether there are any indications for reversing the impairment of fixed assets that have been impaired in 2002, but the calculations revealed that no such indications existed.

The Group uses the straight-line depreciation method, which is characterised by constant depreciation amounts over the entire useful life of an asset.

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

On 31 December 2006, the Group disclosed SIT 854,300 thousand in liabilities arising from a purchase of fixed assets.

Since a concession agreement for the management, development and regular maintenance of port infrastructure in the cargo port of Koper has not yet been concluded, Luka Koper, d.d. still uses the operational shores and land owned by the Republic of Slovenia in the Port of Koper on the basis of the lease agreement from 2000. In compliance with the Maritime Code, the Company shall use the port infrastructure for its dedicated purpose and shall not include it in bankruptcy assets. In 2006, Luka Koper, d.d. invested SIT 509 million in port infrastructure.

8.2.1.3 Investment property

(In thousands of SIT)

		Luka Koper, d.d.		Luka Koper Group	
		31.12.2006	31.12.2005	31.12.2006	31.12.2005
III.	Investment property	1,881,932	1,922,817	1,881,932	1,922,817
1.	Investment property	1,881,932	1,922,817	1,881,932	1,922,817

Investment property includes all building that are subject to operating lease. The equity interest in assets is checked every quarter. The amount of revenues from rents stood in 2006 at SIT 597,609 thousand.

Table of changes in property, plant and equipment and intangible fixed assets of Luka Koper, d.d. for the year 2006

(In thousands of SIT)	Investment Property	Land	Buildings	Manufacturing equipment and small tools	Property, plant and equipment being acquired	Total property plant and equipment	Intangible assets	Investments in foreign fixed assets	Intangible fixed assets being acquired	Total intangible fixed assets
Cost										
Balance as at 1 January 2006		425,739	53,185,712	31,283,289	765,390	85,660,130	2,823,536	215,170	7,886	3,046,592
Increases	124		1,429,016	2,126,535	4,129,466	7,685,141			31,664	31,712
Transfer from intangible assets			358,474			358,474				
Decreases			-144,307	-226,045	-2,484,381	-2,854,733	-143,304	-215,170		-358,474
Transfer to investment property	3,198,222		-3,194,390		-3,832	0				
Transfer to the sales account	-38,741		-55,763	-240,236		-334,740				
Transfer from the sales account to investment property	80,518		-80,518			0				
Transfer to land		40,124	-40,124			0				
Revaluation due to: impairment										
impairment reversal										
Balance as at 31 December 2006	3,240,123	465,863	51,458,100	32,943,563	2,406,643	90,514,272	2,680,280	0	39,550	2,719,830

(In thousands of SIT)

	Investment Property	Land	Buildings	Manufacturing equipment and small tools	Property, plant and equipment being acquired	Total property plant and equipment	Intangible assets	Investments in foreign fixed assets	Intangible fixed assets being acquired	Total intangible fixed assets
Allowance										
Balance as at 1 January 2006			25,097,384	24,998,610		50,095,994	2,590,547	121,862		2,712,409
Increase	0					0				
Transfer from intangible assets			289,760			289,760	-167,898	-121,862		-289,760
Depreciation for the current year	86,153		1,787,421	1,218,438		3,092,012	141,751			141,751
Decreases			-98,520	-227,713		-326,233				
Transfer to investment property	1,217,511		-1,216,731	-780		0				
Transfer to the sales account	-17,082		-52,844	-221,978		-291,904				
Transfer from the sales account to investment property	71,609		-71,609			0				
Revaluation due to: impairment										
Balance as at 31 December 2006	1,358,191		25,734,861	25,766,577		52,859,629	2,564,400	0		2,564,400
Carrying amount										
Balance as at 1 January 2006		425,739	28,088,328	6,284,679	765,390	35,564,136	232,989	93,308	7,886	334,183
Balance as at 31 December 2006	1,881,932	465,863	25,723,239	7,176,966	2,406,643	37,654,643	115,880	0	39,550	155,430

Table of changes in property, plant and equipment and intangible fixed assets of the Luka Koper Group for the year 2006

	Investment Property	Land	Buildings	Manufacturing equipment and small tools	Property, plant and equipment being acquired	Total property plant and equipment	Intangible assets	Investments in foreign fixed assets	Intangible fixed assets being acquired	Total intangible fixed assets
<i>Cost</i>										
Balance as at 1 January 2006		425,739	53,899,913	33,353,036	766,456	88,445,144	2,824,009	406,167	7,886	3,238,062
Increases	124	40,124	1,442,589	3,952,626	4,129,466	9,564,929	167	575	31,664	32,406
Transfer from intangible assets			550,046			550,046		-191,572		-191,572
Decreases			-144,307	-323,901	-2,485,447	-2,953,655	-143,304	-215,170		-358,474
Transfer to investment property	3,198,222		-3,194,390		-3,832	0				
Transfer to the sales account	-38,741		-55,763	-240,236		-334,740				
Transfer from the sales account to investment property	80,518		-80,518			0				
Transfer to land			-40,124			-40,124				
Revaluation due to: impairment										
impairment reversal										
Balance as at 31 December 2006	3,240,123	465,863	52,377,446	36,741,525	2,406,643	95,231,600	2,680,872	0	39,550	2,720,422

(In thousands of SIT)

(In thousands of SIT)

	Investment Property	Land	Buildings	Manufacturing equipment and small tools	Property, plant and equipment being acquired	Total property plant and equipment	Intangible assets	Investments in foreign fixed assets	Intangible fixed assets being acquired	Total intangible fixed assets
Allowance										
Balance as at 1 January 2006			25,184,443	26,074,521		51,258,964	2,590,800	196,648		2,787,448
Increase	0					0				
Transfer from intangible assets			368,197		368,197		-167,898	-200,300		-368,198
Depreciation for the current year	86,153		1,811,780	1,408,147		3,306,080	141,857	3,652		145,509
Decreases			-98,520	-321,542		-420,062				
Transfer to investment property	1,217,511		-1,216,731	-780		0				
Transfer to the sales account	-17,082		-52,844	-221,978		-291,904				
Transfer from the sales account to investment property	71,609		-71,609			0				
Revaluation due to:										
impairment										
Balance as at 31 December 2006	1,358,191		25,924,716	26,938,368		56,221,275	2,564,759	0		2,564,759
Carrying amount										
Balance as at 1 January 2006		425,739	28,715,470	7,278,515	766,456	37,186,180	89,905	352,823	7,886	450,614
Balance as at 31 December 2006	1,881,932	465,863	26,452,730	9,803,157	2,406,643	41,010,325	116,113	0	39,550	155,663

Table of changes in property, plant and equipment and intangible fixed assets of Luka Koper, d.d. for year 2005

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

Table of changes in property, plant and equipment and intangible fixed assets of Luka Koper Group for year 2005

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

8.2.1.4 Long-term investments

(In thousands of SIT)

		Luka Koper, d.d.		Luka Koper Group	
		31.12.2006	31.12.2005	31.12.2006	31.12.2005
IV.	Long-term investments	35,631,571	26,128,054	36,930,479	26,284,082
1.	Long-term investments, excluding loans	33,082,751	24,047,738	32,810,672	24,201,039
	Shares in Group companies	1,008,509	1,008,509	0	0
	Shares in associated companies	13,422,575	12,653,165	14,159,004	13,814,975
	Other stocks and shares	18,651,667	10,386,064	18,651,668	10,386,064
	a. Other stocks and shares at fair value	12,430,190	4,175,332	12,430,190	4,175,332
	b. Other stocks and shares at cost	6,221,478	6,210,732	6,221,478	6,210,732
2.	Long-term loans	2,548,820	2,080,316	4,119,807	2,083,043

Investments

On the last day of the financial year 2006, long-term investment in the Luka Koper Group amounted to SIT 36.9 billion. Most investments are owned by the parent company and stood on 31 December 2006 at SIT 35.6 billion, which is 43.6% in assets. Investments include investments in subsidiary and associated companies, and other investments that are marketable and non-marketable by nature. Increase in long-term investments can be almost entirely attributed to the increase in their fair value. The most significant changes in long-term investments were recorded in respect of an investment in the associated company AdriaFin, d.o.o., where the Company increased its ownership share from 39.44 to 50%, and an investment in the company Kopinvest Netherlands B.V., where the ownership share was increased from 25 to 50%.

The financial statements of associated companies were prepared on the same date as the reporting period for the Luka Koper Group. They are included in the Group's financial statements in accordance with the equity method and recorded under long-term assets. The carrying amount of these investments equals SIT 14,159,004 thousand. The cost of an investment in Intereuropa d.d., whose shares are listed on the stock exchange, was higher than the price quoted on the stock exchange, which on 31 December 2006 stood at SIT 6,114.20. The investment was therefore not revalued.

The prevailing portion of investments in other long-term shares comprised stocks listed on the stock exchange, most important of which were the shares of Krka, Gorenje, Telekom and Petrol. These were classified in the group of investments available for sale whose valuation effects increase the revaluation surplus as a specific equity component. Investments in other stocks and shares amounted to SIT 18.6 billion, of which SIT 12.4 billion were valued at fair value. The remaining amount of SIT 6.2 billion represents investments that are measured at cost due to unavailability of their fair value. Among them the stocks of Banka Koper, d.d. account for the largest share,

totalling SIT 5.6 billion. The Company has a put option on 53,136 freely transferable shares of Banka Koper, d.d. The carrying amount of shares recorded in the books of account is lower than the value under the option contract.

When Sanpaolo IMI acquired an interest in Banka Koper, d.d. a shareholder's agreement was concluded in 2002 that, among others, provided Luka Koper, d.d. with a put option and Sanpaolo IMI with a call option on all 53,136 shares owned by the Company. The shareholder's agreement also laid down the calculation of option value, which was based on the price indicated as part of the 2001 initial public offering. Put and call options expired on 30 July 2006.

To lay down a framework for relations between majority shareholders of Banka Koper (Luka Koper, Istrabenz, Intereuropa, Sanpaolo IMI) in the period after 30 July 2006, a new shareholder's agreement was concluded in June 2006 that extended that validity of key provisions of the previous agreement for another five years. Those provisions provided that the ownership share of major Slovenian shareholders remain unchanged and that the existing management method be preserved. The new agreement also extended the validity of Slovenian shareholders' put options and the Sanpaolo IMI Group's call option for the period of five years (until 31 January 2011) with the possibility of extension. The Supervisory Board of Luka Koper, d.d. has not yet discussed the possibility of exercising the put option on shares of Banka Koper, d.d.

Long-term loans

On 31 December 2006, the granted long-term loans in the Luka Koper Group amounted to SIT 4,119,807 thousand.

Fixed income securities of various issuers with a variable interest rate between $\text{euribor}_{6m} + 1.05\%$ and $\text{euribor}_{6m} + 2\%$ and a fixed (annual) interest rate between 4.00 and 6.25% accounted for most of the investments.

The remaining amount of SIT 253 million includes housing loans granted to employees of Luka Koper, d.d. and its subsidiary companies. These loans have been granted to help employees solve their housing problems, which is in line with housing rules of the Luka Koper Groups. The nominal interest rate of loans equalled 6% p.a. Due to repayments, the amount of loans granted decreased in 2006 to SIT 68 million.

The company did not grant any other loans or guarantees in 2006.

8.2.1.5 Long-term operating receivables

(In thousands of SIT)

		Luka Koper, d.d.		Luka Koper Group	
		31.12.2006	31.12.2005	31.12.2006	31.12.2005
V.	Long-term operating receivables	2,811	2,804	2,811	2,804
	Long-term receivables from others	2,811	2,804	2,811	2,804

8.2.1.6 Deferred tax assets

(In thousands of SIT)

		Luka Koper, d.d.		Luka Koper Group	
		31.12.2006	31.12.2005	31.12.2006	31.12.2005
VI.	Deferred tax assets	216,739	160,453	241,340	0

8.2.2 Current assets

8.2.2.1 Assets held for sale (or disposal groups)

This category includes fixed assets that the Company intends to sell according to the Management Board resolution. They are disclosed at carrying amount, which on 31 December 2006 stood at SIT 29,977 thousand.

8.2.2.2 Inventories

Inventories are recorded only by the subsidiary company Luka Koper Pristan d.o.o., which performs restaurant and hotel management activities. The company did not pledge any inventories as collateral for liabilities and did not write off any inventories.

8.2.2.3 Short-term investments

(In thousands of SIT)

		Luka Koper, d.d.		Luka Koper Group	
		31.12.2006	31.12.2005	31.12.2006	31.12.2005
III.	Short-term investments	2,693,047	8,291,049	3,911,124	9,447,302
1.	Short-term investments, excluding loans	0	4,188,049	0	4,189,826
2.	Short-term loans	2,693,047	4,103,000	3,911,124	5,257,476

On the last day of the financial year 2006, short-term investments of Luka Koper, d.d. amounted to SIT 3,911,124 thousand. Short-term investments of the parent company, which on 31 December 2006 equalled SIT 2,693,047 thousand and were all considered short-term loans, accounted for the largest share of these investments. Short-term bank deposits amounted to SIT 2,544 million, while short-term loans to others stood at SIT 138.9 million. Total amount of short-term investments in 2006 decreased by SIT 5.8 billion, a decrease of 68.5%. The decrease can be attributed to maturity of certain deposits, but mostly to the transfer of investments in units of various mutual funds to long-term investments available for sale, since their nature proved to be long-term.

In 2006, the bank deposit interest rates fluctuated between 3.20 and 4.10% p.a., the nominal interest rates for transferable certificates of bank deposits ranged from 3.50 to 4.40% p.a., and the variable interest rates moved between the basic interest rate (TOM) + 0.55% and the basic interest rate (TOM) + 1.90%.

8.2.2.4 Short-term operating receivables

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
b. Short-term operating receivables	5,031,108	4,308,620	5,351,525	4,486,393
1. Short-term trade receivables (domestic)	881,665	804,460	1,034,009	842,542
Allowances	-72,377	-65,924	-87,401	-71,212
2. Short-term operating receivables due from Group companies	18,982	6,592	0	0
3. Short-term trade receivables (foreign)	1,393,913	1,264,629	1,419,840	1,267,572
4. Advances given for operating current assets	59,668	128,272	59,693	128,272
5. Short-term operating receivables due from exporters	1,420,038	1,520,990	1,506,888	1,640,403
Allowances	-18,732	-19,603	-18,732	-19,603
6. Short-term interest receivables	6,976	13,777	9,043	15,957
Allowance	-346	-2,332	-636	-2,572
7. Input VAT receivables	85,357	67,459	96,504	304,919
8. Other short-term receivables	406,896	363,671	414,420	373,932
9. Receivables from taxes and excise duties	849,068	226,629	916,625	2,183

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

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

Age structure of receivables

(In thousands of SIT)

Maturity	Luka Koper		All subsidiary companies		Share in the Group (in %)
	31.12.2006	31.12.2005	31.12.2006	31.12.2005	
Overdue 0-90 days	3,584,000	3,077,938	359,778	235,533	96.07
Overdue 91-180 days	22,325	66,277	3,520	3,643	0.63
Overdue 181-365 days	26,178	384,584	8,259	1,558	0.84
Overdue for over 365 days	92,773	78,797	8,072	5,362	2.46
Allowances for receivables	91,456	87,860	15,314	5,362	
Total trade receivables	3,725,276	3,607,596	379,629	246,096	

Changes in allowances for trade receivables in 2006

(In thousands of SIT)

	Luka Koper, d.d.	Luka Koper INPO, d.o.o.	Luka Koper Pristan, d.o.o.	Adria-Tow, d.o.o.
Allowance for receivables as at 1 January 2006	87,859	267	3,972	1,123
-write-offs during the year	3,479	0	1,319	0
-payments during the year	11,929	-79	19	0
+additional increase of allowance	19,006	9,977	1,391	0
Closing balance as at 31 December 2006	91,456	10,166	4,025	1,123

8.2.2.5 Cash

Cash balance including deposit money and short-term bank deposits with maximum maturity of 3 months amounted on 31 December 2006 to SIT 148,944 thousand. The Group does not dispose with any facilities enabling automatic borrowing through current accounts with banks. Daily cash surpluses on current accounts are managed through a framework deposit contract and a surplus transfer contract concluded with a commercial bank. This ensures an optimal liquidity of operations.

8.2.2.6 Deferred costs (expenses) and accrued revenues

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
C. Deferred costs (expenses) and accrued revenues	20,306	12,991	21,806	18,827
Insurance premiums	15,362	9,773	16,345	10,782
Short-term deferred other expenses	4,944	3,218	5,461	8,045

8.2.2.7 Off-balance sheet records

The parent company Luka Koper, d.d. and the subsidiary company Adria-Tow use the off-balance sheet accounts to record items that do not meet the conditions for balance sheet recognition, such as financial guarantees given or obtained. The contracts are concluded in the form of financial

guarantees and documentary letters of credit. Off-balance sheet accounts disclose the fair value of contingent liabilities and assets. In 2006, the off-balance sheet assets and liabilities have been disclosed as a total value of receivables and liabilities, while in 2005 only liabilities were disclosed.

(In thousands of SIT)

	Luka Koper, d.d.		Adria-Tow, d.o.o.	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Total off-balance sheet assets and liabilities	3,499,980	1,807,966	1,256,830	428,185
Liability for a guarantee issued for a loan to the subsidiary company Adria-Tow	1,256,830	428,185		
Liability for a guarantee issued for a loan to the associated company Adria-fin	0	236,281		
Liability for a guarantee issued to the Ministry of Finance	175,000	320,000		
Liability for a guarantee issued to Termoelektrarna Ljubljana	0	62,098		
Liability for outstanding letters of credit issued to suppliers	113,389	62,212		
Pledge of a fixed asset (tugboat)			1,256,830	428,185
Pledge of deposits	0	500,000		
Liabilities for Centroprom	199,190	199,190		
*A guarantee and a lien on a fixed asset received	1,256,830			
*Other guarantees received	299,550			
*Receivables due from Centroprom	199,190			

8.2.3 Equity

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
A. Capital	68,380,821	62,894,204	70,666,768	64,927,326
Equity – majority shareholder	68,380,821	62,894,204	70,200,846	64,647,429
I. Called-up capital	14,000,000	14,000,000	14,000,000	14,000,000
1. Share capital	14,000,000	14,000,000	14,000,000	14,000,000
II. Capital reserves	21,462,806	21,462,806	21,462,806	21,462,806
III. Profit reserves	24,250,484	22,167,891	24,274,211	22,190,639
1. Legal reserves	4,496,872	4,496,872	4,520,599	4,519,621
3. Other profit reserves	19,753,612	17,671,019	19,753,612	17,671,018
IV. Net profit or loss brought forward	1,438,668	1,344,177	3,242,388	2,521,152
V. Net profit or loss for the year	2,390,789	2,094,490	2,383,367	2,647,992
VII. Revaluation surplus	4,838,074	1,824,840	4,838,074	1,824,840
Revaluation for deferred tax purposes	-1,445,139	-608,279	-1,445,139	-608,279
Specific equity revaluation adjustment	6,283,213	2,433,119	6,283,213	2,433,119
II. Equity – minority shareholders	0	0	465,922	279,897
Share capital			11,933	11,933
Capital reserves			6,147	189
Legal profit reserves			1,193	1,193
Other profit reserves			188,018	92,531
Net profit or loss brought forward			72,605	95,488
Net profit or loss for the year			186,026	72,605
Revaluation surplus			0	5,958

The share capital of the parent company Luka Koper, d.d. includes 14,000,000 shares with nominal value of SIT 1,000 each. The total amount of outstanding shares is divided into 7,140,000 ordinary registered shares listed on the first quotation of the Ljubljana Stock Exchange, and 6,860,000 participating preference shares owned exclusively by the Republic of Slovenia. The preference shares have fixed and variable rates of return and limited voting rights. Everything relating to the ownership structure, changes and dividend distribution policy of the Company is disclosed in the Luka Koper Group business report.

Capital reserves are disclosed at amounts that resulted from elimination of general equity revaluation adjustment.

Within the Group, legal reserves in the minimum amount of 10% of the share capital have been formed by the parent company, Luka Koper Inpo d.o.o and Adria-Tow d.o.o. The subsidiary company Luka Koper Pristan, d.o.o. has not yet formed legal reserves in the amount of 10%. As this company recorded a net profit, 5% of this amount was transferred to legal reserves. Changes in equity that occurred during the year are disclosed in the statement of changes in equity on pages 84 to 87 of this report.

After offsetting the long-term investments of the parent company and the equity of subsidiary companies, the summed-up equity of the

Group equalled, in proportion to the parent company's share in these companies, the sum of the equity of the majority shareholder and the equity of minority shareholders in the company Adria-Tow d.o.o. The total equity of the Group amounts to SIT 70,666,768 thousand.

The equity is thus composed of the following items:

1. Majority shareholder SIT 70,666,768 thousand
2. Minority shareholders SIT 465,922 thousand

No-par value shares and stakes in euros (1 January 2007)

By introducing quasi no-par shares, which are shares without a nominal amount, Luka Koper, d.d. managed to avoid a significant change in share capital and formal procedures relating to the transition to the euro. The corresponding resolution was adopted by the General Meeting on 22 August 2006.

Quasi no-par shares do not include any information on the stake or the extent of shareholders' rights, they merely indicate a number of shares represented by a certain share.

In September 2006, the subsidiary companies, acting on resolutions of their respective General Meetings, also indicated the amounts of their share capital in euros.

8.2.4 Provisions

(In thousands of SIT)

		Luka Koper, d.d.		Luka Koper Group	
		31.12.2006	31.12.2005	31.12.2006	31.12.2005
B.	Provisions	871,692	727,921	2,415,804	1,942,502
1.	Provisions for pensions and similar items	322,835	321,840	417,646	391,777
2.	Other provisions	524,603	345,505	680,716	345,505
3.	Long-term accrued costs (expenses) and deferred revenues	24,254	60,576	1,317,442	1,205,220

Provisions for pensions and similar items comprise long-term remunerations to the employees of Luka Koper, d.d. and the subsidiary companies Luka Koper INPO, d.o.o. and Adria-Tow. This category also includes jubilee benefits and termination benefits on retirement. A liability is recognised in the amount of the present value of expected future expenditures. Termination benefits on retirement paid out upon retirement and jubilee benefits granted in 2006 decreased the provision formed in 2006. Actuary calculations that serve as a basis for determining the amount of provisions are performed every second year.

Other provisions, which include provisions for damages, have been increased in 2006 by SIT 250,000 thousand and reduced by SIT 37,500 thousand.

Revenues from fixed assets acquired free of charge in Luka Koper, d.d. are disclosed under long-term accrued costs (expenses) and deferred revenues in the amount of SIT 24,254 thousand. Retained employee contributions in the amount of SIT 1,293,170 thousand form long-term accrued costs (expenses) and deferred revenues in the subsidiary disability company Luka Koper INPO, d.o.o. The assigned funds have a specific purpose and are mostly used for covering the costs of depreciation of fixed assets. The company Adria-Tow discloses a subsidy for fixed assets in the amount of SIT 156,113 thousand.

8.2.5 Long-term liabilities

		Luka Koper, d.d.		Luka Koper Group	
		31.12.2006	31.12.2005	31.12.2006	31.12.2005
C.	Financial and operating liabilities				
a.	Long-term financial liabilities	6,832,619	7,939,185	7,975,236	8,253,187
1.	Long-term financial liabilities to banks	6,832,619	7,939,185	7,975,236	8,253,187
b.	Long-term operating liabilities	17,489	11,450	1,440,999	15,484
1.	Long-term operating liabilities	17,489	11,450	22,159	15,484
2.	Long-term finance lease liabilities	0	0	1,418,840	0
c.	Deferred tax liabilities	1,445,139	608,279	1,445,139	428,319

Long-term financial liabilities

At Luka Koper, d.d. long-term financial liabilities on the last day of 2006 stood at SIT 6.8 billion and at the subsidiary company Adria-Tow at SIT 1.4 billion. In 2006, interest rate for bank loans received ranged between $\text{euribor}_{1m} + 0.55\%$ and $\text{euribor}_{1m} + 0.60\%$ for euro-denominated loans, and equalled $\text{libor}_{3m} + 0.70\%$ for loans in US dollars.

Long-term operating liabilities

Adria-Tow has a long-term finance lease liability arising from a fixed asset under finance lease in the amount of SIT 1,418,840 thousand.

Long-term operating liabilities include long-term collaterals received for rented business premises and deferred liabilities for deferred taxes arising from valuation of investments at fair value, which is recorded as a specific equity component. Deferred taxes were measured at a tax rate of 23%, which is in line with the amended Corporate Income Tax Act that lowered the tax rate from 25 to 23%.

8.2.6 Short-term liabilities

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
c. Short-term financial liabilities	914,733	284,293	539,381	368,122
1. Short-term financial liabilities to banks	129,605	137,436	520,935	251,295
2. Short-term financial liabilities to Group companies	766,682	10,733	0	0
3. Short-term financial liabilities to associated companies	0	116,504	0	116,504
4. Short-term financial liabilities to others	18,446	19,620	18,446	323
d. Short-term operating liabilities	2,843,984	2,950,113	3,115,113	3,190,122
1. Short-term operating liabilities for advances	220	877	2,279	2,853
2. Short-term trade payables	1,896,061	1,149,995	2,146,608	1,278,599
4. Short-term operating liabilities to Group companies	131,415	86,088	0	0
5. Short-term operating liabilities to associated companies	0	0	0	0
6. Short-term operating liabilities to others	816,288	1,713,153	966,226	1,908,670

Short-term financial liabilities

Short-term financial liabilities arising from received loans stood on 31 December 2006 at SIT 914.7 million, of which the loans received from Group companies equalled SIT 766 million. In this case, interest was charged in accordance with a tax deductible interest rate for loans between related parties. The remaining amount of received short-term loans comprises the short-term portion of a loan in US dollars that falls due in 2007 and has an interest rate of $\text{libor}_{3m} + 0.70\%$.

8.2.7 Accrued costs (expenses) and deferred revenues

(In thousands of SIT)

	Luka Koper, d.d.		Luka Koper Group	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
D. Accrued costs (expenses) and deferred revenues	204,833	220,747	206,608	226,070
Demurrage	0	5,035	0	5,035
Foreign commercial discounts	194,680	54,187	194,680	54,187
Accrued costs	10,153	156,248	11,928	160,673
Short-term deferred revenues	0	5,277	0	6,175

8.3 Disclosures relating to the cash flow statement

The cash flow statement has been prepared in accordance with Format II, which includes disclosures of items that do not directly constitute cash flows. Material increases or decreases in individual items affecting the cash flows of the Luka Koper Group are disclosed in the income statement, balance sheet and in the statement of changes in equity.

8.4 Disclosures relating to the statement of changes in equity

Luka Koper, d.d.

Transfers to equity

The specific equity revaluation adjustment item increased by SIT 3,013,234 thousand, which is a result of valuation of investments classified as available for sale.

Equity was further increased by the net profit for the year in the amount of SIT 4,781,579 thousand.

Transfers within equity

In accordance with the resolution of the Management and the Supervisory Board, half of net profit for 2006 in the amount of SIT 2,390,789 thousand was allocated to other profit reserves.

In line with the General Meeting resolution, SIT 2,000,000 of the 2005 net profit, which totalled SIT 2,094,490 thousand and constituted a distributable profit, was allocated to other profit reserves, while SIT 94,490 thousand was allocated to the profit brought forward.

Transfers from equity

In accordance with the General Meeting resolution, other profit reserves in the amount of SIT 2,308,195 thousand were distributed as dividends.

Subsidiary companies

Transfers within equity

All subsidiary company allocated their net profits to other profit reserves, while the difference constituted a profit brought forward.

9 Relations of the parent company with subsidiary and associated companies and relations between subsidiary companies

(In thousands of SIT)

Parent company to subsidiary companies and subsidiary companies among themselves	31.12.2006	31.12.2005
Long-term investments	1,008,509	1,650,344
Receivables	131,415	86,088
Short-term trade receivables	131,415	86,088
Short-term interest receivables	0	0
Short-term investments	766,682	10,734
Liabilities	898,097	96,822
Short-term operating liabilities	131,415	86,088
Short-term financing liabilities	766,682	10,734
Revenues	668,593	744,873
Operating revenues	666,900	712,050
Financing revenues	1,693	32,823
Costs and expenses	666,900	744,873
Costs of material	26,312	24,378
Costs of services	621,816	614,110
Labour costs	3,873	11,557
Other costs	14,899	62,005
Financing expenses	1,693	32,823

Value of transactions and amounts of outstanding liabilities and receivables between associated companies

(In thousands of SIT)

Turnover for the period	Adriaфин, d.o.o.		Actual I.T., d.o.o.		Avtoservis, d.o.o.		Intereuropa, d.d.	
	2005	2006	2005	2006	2005	2006	2005	2006
Parent company's services used	323	3,220	80,641	72,182	38,303	9,411	3,365,088	3,103,363
Parent company's lease services used	0	0	4,473	4,318	28,634	42,252	19,530	9,099
Services performed for the parent company	0	0	593,350	665,079	3,161	3,147	79,213	92,490
Lease services performed for the parent company	0	0	0	0	0	0	35,946	41,825
Interest for loan granted to the parent company	5,835	745	0	0	0	0	0	0
Balance as at 31 Dec 2005	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006
Outstanding receivables for services performed by the parent company	322	322	15,331	7,879	3,964	1,542	534,373	499,667
Outstanding liabilities for services used by the parent company	0	0	122,734	129,264	680	317	5,803	3,443
Loan granted to the parent company	116,504	0	0	0	0	0	0	0

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

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

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

1. Avtoservis, d.o.o.: Aldo Babič, Msc., as Chairman of the General Meeting and Mirko Pavšič as member of the General Meeting.
2. Actual IT, d.o.o.: Metka Sušec Praček, Msc., as member of the Supervisory Board.
3. The authorised representatives of Luka Koper, d.d. participate at General Meetings of the associated companies Adriaфин, d.o.o., Golf Istra, d.o.o. and Kopinvest Netherlands B.V.
4. Adria-Transport: Pavle Krumenaker, Mirko Pavšič and Maša Čertalič, Msc., as members of the Board of Company Members.

The president of the Management Board of Luka Koper, d.d. is a member of the Supervisory Board of Splošna plovba, d.o.o. and a member of the Board of Pokojninska družba A, d.d. Marjan Babič, Msc., a member of the Management Board, is a member of the Supervisory Board of Banka Koper, d.d.

10 Contractual relationship with the republic of slovenia and the management of port infrastructure

The contractual relationship with the Republic of Slovenia remains regulated by a lease agreement for operational shores and land owned by the Republic of Slovenia in the Port of Koper, which was concluded in 2000. In accordance with the agreement, lease costs amounted to SIT 244,704 thousand in 2006 and SIT 224,459 thousand in 2005 (SIT 20 per ton of handled goods, excluding handled oil derivatives). In 2006, the Company allocated SIT 509 million for investments in port infrastructure in comparison with SIT 385 million in 2005.

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

We have established a port infrastructure department and thus adapted our internal organisation to the foreseen changes. The department manages port infrastructure assets that are owned by the joint stock company, and also provides for the regular maintenance of buildings intended for safe navigation, safe mooring and the undisturbed execution of port activities (buildings in the public domain owned by the government).

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

Income statement relating to the activity of port infrastructure management in Luka Koper, d.d.

(In thousands of SIT)

	2006	2005
Revenues from services sold in the domestic market	1,163,553	122,797
Revenues from services sold in the foreign market	355,458	998,067
Revaluation operating revenues		122,580
Operating revenues	1,519,011	1,243,444
II. Operating costs	1,732,323	1,426,462
Costs of material	46,350	32,380
Cost of services	845,343	575,846
Allowances	541,159	544,845
Labour costs	39,358	41,681
Other costs	260,113	231,710
III. Operating loss	-213,312	-183,018

11 Events after the balance sheet date

1. In February 2007, a contract for the sale of shares of MC Medicor, d.d. that was signed in December 2006 was carried out in its entirety. Luka Koper, d.d. sold all 3,300 shares of the company.
2. In February 2007, Luka Koper, d.d. entered into a new contract for the purchase of property in Sežana from Terminal Sežana, d.d. The purchase comprises business premises, warehouse, and roof-covered and open spaces that will be used to develop logistic and distribution services at a strategically important location.
3. As a sole founder and company member, Luka Koper, d.d. established a company Adria Terminali, d.o.o., Vojkovo nabrežje 38, Koper, with share capital of EUR 60,000.00. Adria Terminali will manage and market the facilities in Sežana.
4. On 15 February 2007, the first applications of the new IT system that supports the operational work and marketing (TinO) were handed over to users at Luka Koper. According to the plan, TinO will become fully integrated into the Company's operation by mid-2007.

12 Statement of distributable profit

Luka Koper, d.d.

In 2006, the parent company Luka Koper, d.d. realised a net profit of SIT 4,781,578,855.35. The Management Board and the Supervisory Board earmarked 50% of the 2006 net profit in the amount of SIT 2,390,789,427.68 for the increase of other profit reserves. The remaining portion of the net profit was allocated to distributable profit. The distributable profit has been further increased by the profit brought forward from 2005 in the amount of SIT 1,438,667,524.42 SIT. In addition, a portion of other profit reserves from previous years in the amount of SIT 2,308,196,151.14 was also allocated to distributable profit. The total distributable profit for the year 2006 thus amounts to SIT 6,137,653,103.24.

(in SIT)

	2006	2005
Total distributable profit	6,137,653,103.24	5,988,243,661.49
Other profit reserves	2,308,196,151.14	2,308,196,151.14
Net profit for the year	2,390,789,427.68	2,094,490,404.76
Net profit brought forward from 2005	1,438,667,524.42	1,585,557,105.59

The General Meeting of Shareholders will decide on the distribution of profit for the year 2006 in the amount of SIT 6,137,653,103.24 as proposed by the Management and the Supervisory Board. The Management Board will propose the following resolutions to the General Meeting of Shareholders:

- a portion of distributable profit in the amount of SIT 2,308,196,151.14 shall be allocated to shareholders from other profit reserves formed on the basis of equity items from previous years;
- a portion of distributable profit in the amount of SIT 2,500,000,000.00 shall be allocated to other profit reserves, namely, the net profit brought forward from 2005 in the amount of SIT 1,438,667,524.42 and the net profit from 2006 in the amount of SIT 1,061,332,475.58;
- the allocation of the remaining portion of distributable profit (net profit for the year 2006) in the amount of SIT 1,329,456,952.10 shall be decided in the upcoming financial years.

- SIT 173,767,750.44 for fixed dividends pertaining to preference shares;
- SIT 1,856,400,000.00 for dividends pertaining to ordinary shares;
- SIT 278,028,400.70 for the variable portion of dividends pertaining to preference shares.

Gross dividend per ordinary share amounted to SIT 260.00.

- A portion of distributable profit in the amount of SIT 2,000,000,000.00 was allocated to other profit reserves according to the resolution adopted by the General Meeting of Shareholders; i.e. profit brought forward from 2004 in the amount of SIT 1,585,557,105.59 and SIT 414,442,894.41 of net profit for the year 2005.
- The General Meeting adopted a resolution specifying that the allocation of the remaining portion of distributable profit (net profit for 2005) in the amount of SIT 1,680,047,510.35 would be decided in the upcoming business years.

On 22 August 2006, the General Meeting of Shareholders adopted resolutions concerning the proposal of the Management and the Supervisory Board for the allocation of distributable profit in the amount of SIT 5,988,243,661.49 for 2005.

Based on the resolutions of the General Meeting:

- A portion of distributable profit in the amount of SIT 2,308,196,151.14 (formed from other profit reserves for the years 2000 and 2002) was allocated to shareholders, of which:

Distributable profit of subsidiary companies

(In thousands of SIT)

	Luka Koper INPO, d.o.o.		Luka Koper Pristan, d.o.o.		Adria-Tow, d.o.o.	
	2006	2005	2006	2005	2006	2005
Total distributable profit	334,719	246,367	18,585	12,544	517,261	336,184
Other profit reserves	0	0	0	0	0	0
Net profit for the year	288,626	198,038	18,585	12,544	372,052	145,209
Net profit brought forward	46,093	48,329	0	0	145,209	190,975

Luka Koper INPO, d.o.o.

In 2006, the company generated SIT 288,626 thousand in net profit. The profit brought forward totalled SIT 46,093 thousand (decreased by long-term provisions in the amount of SIT 52,454 thousand) and constitutes, together with the net profit, a distributable profit in the amount of SIT 334,719 thousand. The allocation of distributable profit will be subject to the decision of the 2007 General Meeting.

Luka Koper Pristan, d.o.o.

The subsidiary company Luka Koper Pristan, d.o.o. generated SIT 19,563 thousand in net profit, of which 5% was allocated to legal reserves, while the difference of SIT 18,585 thousand constitutes distributable profit. The allocation of distributable profit will be subject to the decision of the 2007 General Meeting.

Adria-Tow, d.o.o.

Adria-Tow, d.o.o. recorded SIT 372,052 thousand of net profit. The company still has SIT 145,209 thousand of unallocated profit from previous years. The allocation of distributable profit in the amount of SIT 517,261 thousand will be subject to the decision of the 2007 General Meeting.

President of the Management Board
Robert Časar

Member of the Management Board
Marjan Babič, Msc.

Head of the Accounting Department
Neda Ritoša

Statement of management's responsibility

The Management of Luka Koper d.d. hereby confirms the consolidated and unconsolidated financial statements disclosed in this Annual Report on pages 79 to 87 and the accompanying notes presented on pages 101 to 126.

Koper, 27.2.2007

President of the Management Board
Robert Časar



Žusterna Koper Canoe and Kayak Club: Pulling Together

Founded twenty-seven years ago, the Žusterna Club provides Koper's oarsmen with a unique opportunity to attain sporting prowess and accomplishment in the spirit of healthy competition. Each contest is a challenge, and every endeavour is surmounted by the realisation of new achievement.



