

Strategic Business Plan

*of the Holding Company and the Istrabenz Group
for the period 2007 - 2011*

- Summary -

Company: Istrabenz, Holding Company, plc
Short name: Istrabenz plc
Address: Cesta Zore Perello Godina 2,
6000 Koper, Slovenia
Telephone: 00386 5 662 1500
Fax: 00386 5 662 1515
E-mail: info@istrabenz.si
Web page: <http://www.istrabenz.si>
Main activity: Holding companies



1. Letter of the Management Board

Dear shareholders, employees and business partners,

The Strategic Business Plan that you are reading represents a link between the past and the future. We are dedicating the present period to change required by the evolution of our company and of the Istrabenz Group.

Analytical approach, critical evaluation of opportunities and capabilities and synthesis of business decisions have for years been an uninterrupted, creative and successful process of restructuring and adapting of the Holding Company and of the entire Istrabenz Group to the requirements of profitability and business excellence.

In the new five-year period we intend to further develop our investments with the aim of achieving their target values:

- The investments in the energy sector will be focused on achieving the role of one of the major players not only in Slovenia, but in South-eastern Europe as a whole, in the markets of liquefied petroleum gas, industrial gases and natural gas, as well as those of electricity and enriched biomass.
- We will continue to develop our tourism division by emphasizing business consolidation and efficient asset management. We have in front of us one of the most exclusive developments in this part of Europe: the renovation of the old Palace Hotel.
- We are streamlining our food-industry sector with the aim of increasing the size of business and strengthening our role in the markets of South-eastern Europe by developing strong and recognisable trade marks.
- We strongly believe in our IT business, which will follow the objectives of increased growth of the business in new markets through new products.
- The increase in the investments of the Holding Company will be supported and complemented by the increase in the Group's assets both by achieving short-term returns and creating additional

medium-term financial potential in the future.

The spread and variety of the structure of the Holding Company's investments have for some time been guaranteeing the financial stability of the Holding Company, which continues to pursue the objective of its core business – asset management – to increase the value of the assets under management. At the same time, we feel the need to change some management methods of our investment policy, our risk-management policy and our procedures for the management, governance and decision-making, as detailed below.

We are keeping the organisational structure of the Holding Company lean and flexible, so that we remain able to efficiently and rapidly react to changes in capital markets of Central and South-eastern Europe. In this way we are achieving, even exceeding – and will continue to do so in the upcoming five-year period – the intended growth of our shareholders' assets and guaranteeing the interests of all the owners of the Holding Company and of the Istrabenz Group.

We are concentrating our skills and efforts on the excellence of our investment decisions – including improved analytical procedures and efficiency of controlling procedures – in order to ensure the best development of our investments and optimisation of financial flows.

We are opening and closing our investment cycles so that they complete the best development round possible within their respective industry. These decisions are binding us for the future to a close and mutual cooperation with the environment and communities, which we operate in and belong to. Our mission remains the one of “Powering the World with Creative Energy”, and it demands from us that we adopt updated and adapted methods to continuously re-create its sense.

Aldo Gabrijel
Member of the Board

Igor Bavčar
Chairman of the Board

Srečko Kenda
Member of the Board

2. Mission, vision and values of the Istrabenz Holding Company

Our mission

“Powering the World with Creative Energy”

By analytically selecting our target investment areas, efficiently managing the investments chosen and making well-pondered transactions in our target capital and monetary markets, we are increasing our shareholders' assets.

Our vision

We will become one of the most important and most respectable investors in the target capital markets of Central and South-eastern Europe.

Our values

Quality – We invest in companies that are constantly improving the quality of life through their products.

People – We believe in people and we are ensuring their personal and professional advancement.

Environment – We are responsible to the social and natural environments and we are supporting the dialogue with them. We are an open partner wherever we invest.

3. *Fundamental guidelines of the Istrabenz Holding Company*

Who We Are?

Istrabenz is a Holding Company.
Our core business is asset management.

What do we manage?

The investments of the Istrabenz Holding Company are divided into

- investments in company shareholdings (shares and participations);
- investments in debt securities; and
- investments in property.

The investments in shareholdings are further classified based on whether a) we manage them actively or b) we just monitor their performance.

The investments in debt instruments are divided into a) loans; b) bonds; c) deposits and d) debts, cash or others.

Property held by Istrabenz may be either a) fixed assets or b) real-estate investments.

How do we create **revenue**?

Revenues at the Istrabenz Holding Company are represented by:

- capital gains, i.e. the difference between the sale and purchase values of certain financial assets or property;
- dividends paid out as dividends or in another way on the basis of the equity held in companies;
- interest on debt instruments;
- rents received or other types of revenue from the ownership of real estate.

How do we make **investment decisions**?

Decisions about the type of investment to be made and the method to be used are taken on the basis of our basic investment policy after

having made a required analysis of the expected return and maturity of the investment.

How do we evaluate the **performance of the Holding Company**?

The basic criterion for judging performance is the achievement of the expected long-term growth of asset value for the shareholders (difference between the value of assets and debt of the Istrabenz Holding Company).

How do we judge the **performance of our investments**?

When assessing the efficiency of the management of the Company's assets, we look at the increases in their market prices as their basic criterion. Simultaneously, we are evaluating the value of our investments and ideas on the basis of a combination of the following information and analyses:

- stock-exchange price and related financial assets; and
- an analytical evaluation of the value, using the following methods:
 - money-market discounting;
 - comparison with comparable listed companies; and
 - comparison with the values realised in transactions with comparable companies.

How do we **manage our subsidiaries**?

We are actively supervising the behaviour of the managements at our subsidiaries and we are enforcing our bonus system, which stimulates the management to achieve the expected growth of our asset value.

4. Investment policy guidelines

- At the Istrabenz Holding Company, we are operating in the selected investment areas with the fundamental aim of achieving the shareholders' interests by ensuring long-term growth of the Holding Company's assets and guaranteeing the long-term growth of the investments managed by Istrabenz more successfully than if done by individual shareholders.
- We define the investment policy for each group or asset type separately, including the expected rate of return, set out with a view on the profitability of comparable companies. We define the intended return on the basis of our shareholders' profitability demands; and the benchmarks are set against the performance of comparable companies that are carrying out the same and/or similar activities.
- Istrabenz – being a long-term investor – is looking for particularly stable industries with at least average rates of return.
- With our existing long-term investments, we are trying to achieve the objective of separating the operations – wherever that proves to be sensible – into two parts: real estate and operations. By doing so, we will pursue the goal of separating the operations portion of the balance sheet from property.
- We are selecting uniform evaluation methods for monitoring all of our investments.
 - When monitoring and evaluating the investments in the course of the year on the basis of comparisons with comparable industry companies, we are using the following methods: **EV/EBITDA** [equity value (equity and debt capital)/earnings from operations before amortisation], **EV/NOPAT** [equity value (equity and debt capital)/earnings from operations after tax], **EV/sales** [equity value (equity and debt capital)/sales revenues].
- Investments in long-term assets represent no more than 90 percent of assets, where at least two long-term investments are required.
- The portfolio shall contain at least ten and no more than 50 percent portfolio investments by which the Holding Company is pursuing the following goals: profitability, liquidity and safety.
- Long-term investments are sold when one of the following events arise:
 - capital gain, resulting from the disposal, is satisfying;
 - operating results and the investment value have already reached their maximum levels and therefore the investment is in danger of falling below its expected rate of return; or
 - the investment fails to produce the expected results within two consecutive years.

5. Management policy guidelines

The basic activities of the Istrabenz Holding Company are incorporation and management of companies, as well as investment management.

Our management policy is closely connected to the structure of investments held in our portfolio.

Management of the Istrabenz Holding Company

The management of the Istrabenz Holding Company will continue to be organised as a two-tier system with a Management Board and a Supervisory Board. Shareholders may exercise their rights at Annual General Meetings.

The objective of investment management at the Istrabenz Holding Company is to maximize the combined worth of the investments held by Istrabenz in its portfolio.

The management system of Istrabenz has been defined in a way to ensure and support the achievement of our investment and investment-management policies. At the same time, the management of the Holding Company is the highest level of management of all the investments of Istrabenz.

Management of investments and supervision and management of subsidiaries

While the investment policy is important for making decisions on acquiring or disposing of an investment, represented by shares and shareholdings in other companies (investments in companies), the management policy is of crucial importance for the monitoring of and impacting on the changes of the value of such investments. The management policy applies to Istrabenz's behaviour during the period from

the acquisition to the disposal of the capital interest in a company (see the Investment Policy chapter).

The main guideline in the management of **all the investments** will be to achieve or exceed the goals pursued by the investment policy and the goals that have been laid down for each individual investment before it was made.

At Istrabenz, we will continue to ensure thorough and systematic – direct or indirect – control and supervision of all our **investments in line with the regulations** at the highest levels achievable in the given circumstances in accordance with the regulations¹.

At Istrabenz we will continue to actively **exercise the voting and other shareholder rights** ensured to us by holding shares and interests in subsidiaries and other companies, in which we have at least five percent voting rights or capital.

In our subsidiaries, we will lead a policy of responsible and efficient management of subsidiaries by taking into account the size and value of the investment, its long- or short-term nature, any special purpose it might have and which is by rule defined prior to the acquisition of the investment.

Istrabenz will continue to intensely monitor the operations at subsidiaries in line with the law **and** the execution of the activities agreed, offering assistance – when needed – to the company managements. An important aspect of our policy for managing subsidiaries is to guarantee efficient company governance through a **well motivated management**, whose relevant portion of salaries is based on the achievement of the results expected on an annual and a long-term (3-5 years) basis.

¹ Levels of control and supervision: i) approval of decisions; > ii) management supervision; > iii) examination of books; > iv) gathering information on company AGMs; > v) analysis of annual and interim reports.

At Istrabenz, we exercise our shareholder rights by **proposing** for management and supervision posts candidates, whom we expect to be **active, committed and responsible in the performance of their tasks**. By doing so, we will improve supervision (as well as management) and consequently reduce our own risk. In order to ensure an even more efficient supervision of individual subsidiaries, at Istrabenz, we will candidate – for management and supervision positions people – whom we expect to **know the activities** of such company.

At Istrabenz, we will propose a one-tier system, with a Management Board and executive directors, for all the public-limited companies, for which we think such a system would make sense.

When deciding about the composition of bodies at the subsidiaries, their operations, the resolution and regulation of salaries of their managers, identifying and resolving conflicts of interest, as well as about other activities, at Istrabenz, we will stimulate them to apply best practices and corporate governance codes in the area of company management.

We will try to introduce **a uniform system of annual and strategic planning across all our subsidiaries**, in line with regulations.

We will ensure and promote transfer of know-how and experience between people and offices of different subsidiaries and the Istrabenz Holding Company.

6. Analysis of the strategic goals achieved

Table 1: Main strategic indicators expected and achieved

STRATEGIC GOALS	GOAL	ACHIEVED	MARK
Increase in the company's assets			
Average asset growth	10%	31%	□
Increase in investments in subsidiaries	12%	32%	□
Increase in market value			
Share-price increase	stable growth	7.1%	○
Spread of investments			
Portion of the largest investment in a Group company among investments in subsidiaries	50%	50%	□
Financing of development			
Capital to assets**	50%	49%	□
Dividend policy			
Average growth of dividends**	10%	14%	□

* In the period 1 June 2002 - 25 August 2006

** Assets excluding short-term securities, investments in Banka Koper and Mercator, short-term loans, deposits, bonds and liabilities to the Istrabenz Holding Company.

*** The dividend of 2002 in the amount of 88 tolars - excluding the one-off payout for the sale of Banka Koper.

The intended value of the indicator has been achieved. □

The intended value of the indicator has not been fully achieved. ○

The intended value of the indicator has not been achieved. □

At the time of adoption of the Strategic Business Plan for the period 2003-2007, we have also approved the strategic goals, of which the main results achieved are shown in Table 2.

The performance of the Istrabenz Holding Company in the period 2003-2005 was following the strategic goals set out. We have managed to exceed the growth indicators marked out, which is the consequence of the high rate of investment activities carried out in line with the Company's investment policy in the said period.

We have financed the Company's extensive asset growth through financial flows from investments and debt.

Among the strategic goals adopted, we have also defined a 10-percent average return on equity as our target for the period 2003-2007. The Management Board of the Istrabenz Holding Company, have adopted in 2004 a resolution on recording the gains from subsidiaries directly as revaluation adjustment of long-term investments, excluding financial revenues, and consequently as profit accruing to the Holding Company, in order to take into account the International Financial Reporting Standards (IFRS)². As a consequence of this change, the effect of the performance of subsidiaries is no longer disclosed in the profit of the Istrabenz Holding Company. Considering that investments in the subsidiaries represent an important portion of the structure of the Holding Company's assets (50 percent), we have decided not to continue including ROE among the most relevant indicators.

If the profit accruing to the financial revenues of the Holding Company from the performance of the subsidiaries was included, our performance in the period 2003-2005 would have been equal to a net return on equity of 13 percent. The increase in the ITBG share price at the Ljubljana Stock Exchange in the period 2003-

2006 was somewhat lagging behind forecasts, while the average annual growth of the dividends exceeded the expected 10-percent rate. The slightly lower increase in the share price is the consequence of important changes to the Holding Company's investment portfolio. In 2004, we have sold our 50-percent share in OMV Istrabenz, and in 2005, we entered the food and retail industry by investing in Droga Kolinska and Mercator. The said changes have had a strong impact on the fluctuations of the share price in 2004 and 2005.

² The Company adopted the IFRS from 1 January 2006, while the Istrabenz Group started applying the new standards already in the 2005 financial year.

7. Strategic goals of the Istrabenz Holding Company for the period 2007 - 2011

Table 2: Strategic goals of the Istrabenz Holding Company

STRATEGIC GOALS 2007 – 2011	GOAL
Growth of the Company's assets	
Average growth of the value of assets	5%
Shares	
Dividend policy - <i>average annual growth</i>	10%
Investment spread	
Investment structure	Most of the investments in company shares will be actively managed; Debt instruments max. 10%
Financing of development	
Portion of net debt to the value of assets*	60%

* Excluding cash, listed short-term securities, short-term loans, deposits and bonds.

The strategic goals for the operations of the Istrabenz Holding Company in the period 2007-2011 are the following:

- stable growth of the value of the Company's assets;
- an acceptable structure of sources of financing; and
- achieving the expected increase in dividend payout.

The growth of the Holding Company's assets is no longer dependent on the performance of the

subsidiaries, since their profit/loss is not disclosed in the parent company's financial statements. In this way, the growth of the Istrabenz Holding Company's assets depends uniquely on the increase in investments.

At the Holding Company, we will manage our assets by investing them in a way to ensure active management. The structure of the financial sources will be in line with the Company's investment policy, which takes into account the size of the investments and their related return period.

8. *Basic operating parameters of the Istrabenz Holding Company for the period 2007 – 2011*

In the period 2007-2011, the Istrabenz Holding Company will continue achieving the past results, disclosed in the operating section of the profit and loss account, while we will gradually achieve better financial results in the financial section.

The Company's profit, after the payment of the Holding Company's expenses for the management of investments and subsidiaries, is mainly composed of financial revenues,

including dividends received and capital gains, expected from the disposal of investments.

In this way, the Holding Company will ensure financial sources for dividend payouts.

We are planning the Holding Company's profit to achieve 4.1 million euros by the end of the strategic period, at a 20-percent average annual growth rate.

Table 3: Expected increase in the Company's assets

ITEMS	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011
	FIGURE IN € THOUSAND	FIGURE IN € THOUSAND	FIGURE IN € THOUSAND	FIGURE IN € THOUSAND	FIGURE IN € THOUSAND	FIGURE IN € THOUSAND
Assets	500,147	508,465	542,657	577,687	608,298	641,280

Growth does not show in the Company's assets, composed of subsidiaries, since the investments in subsidiaries are valued at their procurement price.

In the said period (2007-2011) the Company's book capital will be slightly decrease, since the combined value of dividend payouts will exceed the Company's profits realised in this period. Increased debt and net debt will not threaten the Company's financial standing, but rather show an active investment policy. We have taken into account the expected amount of net debt, which will not exceed 60 percent of the

combined value of assets in the period concerned.

In 2011, the Company will have 214 million euros employed in investments in subsidiaries, which is 14 million euros more than in 2007. The expected growth in the operations and profitability of the companies, in which we invest (subsidiaries and other companies), will strengthen the Company's financial strength and eventually show in the market value of the Istrabenz Holding Company's net assets.

9. Investments in subsidiaries in the period 2007-2011

The Droga Kolinska Group

The Droga Kolinska Group will generate 340 million euros in operating profit before amortisation (EBITDA). In the period concerned, the Group will invest about 50 million euros in fixed assets and a comparable amount to dividends. In 2011, the Company will generate revenues amounting to 490 million euros. Development will be focusing on the consolidation of the existing trade marks with a high market potential in order to generate the expect results from the sale of products.



The Istrabenz Tourism Group

In the period 2007-2011, the development of the Istrabenz Tourism Group's business will be based on an increased size of business and higher profitability, stemming from the existing – mostly renovated – properties and from the new important investment in the renovation and expansion of the old Palace Hotel, which is due to open in 2008. The investments planned, amounting to 45 million euros, will mostly account for the new rooms and other premises of the old Palace Hotel. The cumulative EBITDA of the period - in the amount of 72 million euros – will enable the Company to repay the existing and newly raised debts, as well as to pay out dividends to owners in the amount of 13 million euros. After a successful consolidation of company operations in the Istrabenz Tourism Group, the management will draft a business plan for expanding their chain into new markets.





Istrabenz Marina Invest

Istrabenz Marina Invest, the company managing the investment in the new marina in Koper, will complete the development worth 34.5 million euros in 2007 and 2008. The company has been granted a 50-year concession for the construction and management of a tourist port, as well as for the supply of public business services in the area of maritime activities. The investment will be financed by own capital, debt and a non-repayable loan given by the Municipality of Koper or from European funds (4.2 million euros).

During the final production phase of the project, the Istrabenz Holding Company will find a minority capital partner to have a stake in Istrabenz Marina Invest and reduce the Company's capital exposure in the project.



The Istrabenz Plini Group

In the period 2007-2011, the Istrabenz Plini Group is planning investments worth 85 million euros in tangible fixed assets. The investment activities will be directed to the construction of an additional gas network in the areas, for which concessions have already been granted, as well as in those, where concessions are still expected, and to the construction of new capabilities for the trade in liquefied petroleum gas and industrial gases. Apart from investments in fixed assets, the parent company Istrabenz Plini also plans to buy a 34-percent stake in Plinarna Maribor and increase the capital of Montkemija Bakar in order to increase its market share in Croatia. In the period 2007-2011, the Istrabenz Plini Group will generate 69 million euros of EBITDA, while Istrabenz Plini will pay out 5.2 million euros in profit.



Istrabenz Gorenje Energetski Sistemi

The Istrabenz Holding Company consolidates only the accruing 50-percent stake in Istrabenz Gorenje Energetski Sistemi. In the period 2007-2011, the Istrabenz Gorenje Energetski Sistemi Group will further strengthen its position in Slovenia and South-eastern Europe, namely in the production, trade and distribution of electricity. The investments also include production lines for enriched biomass. Istrabenz Gorenje Energetski Sistemi plans to invest in 2007-2009 in the capital of a company that will manage the construction project of one or several large hydroelectric power plants in Bosnia and Herzegovina. The parent company will gear up to the investments by gradually increasing its capital. The (consolidated) portion accruing to the Group will generate 10 million euros of EBITDA in 2007-2009. At Istrabenz, we are planning financial revenues from dividends of Istrabenz Gorenje Energetski Sistemi in the amount of 3 million euros.

Instalacija

In the period 2007-2011, Instalacija plans to invest 10 million euros in the construction of two new tanks with a combined capacity of 70,000 m³, while the investment in a 55,000 m³ storage tank will be completed in the current year. The combined investments, including those for the renovation of existing capacities, will amount to 15 million euros. The company will generate 40 million euros of EBITDA and pay out a combined amount of 26 million euros in dividends to both owners.





Actual

Actual plans to increase the size of its business in 2007-2011 by attracting new, strategic, large customers, as well as by penetrating the corporate market (ranging from small and medium-size companies to large enterprises) with specific products. The company plans to invest 9 million euros in fixed assets in the said period. Should the company need larger funds to buy other companies, it has the possibility of gaining additional financial resources by increasing the company's capital by 6.5 million euros. In the upcoming five-year period, the company will generate 18 million euros of EBITDA and pay out dividends to owners worth 1.5 million euros.

