

IFC in Croatia

Since Croatia became a member in 1993, IFC has committed more than \$519 million of its own funds and has arranged over \$123 million in syndications. IFC's investments in Croatia have financed projects in financial markets, general manufacturing, and agribusiness sectors.

As of August 2009, IFC's committed portfolio was US\$ 335 million allocated in the agribusiness (30 percent), financial markets (27 percent) and general manufacturing (43 percent). In addition, IFC has committed about US\$ 27 million through syndication.

Investment Projects in Croatia

| Project Name | Industry | Disclosure Date |
|--|--------------------------------------|------------------------|
| Frikom | F- Food & Beverages | |
| CMC Sisak | M - Industrial and Consumer Products | 6 Jun 08 |
| PIK Vrbovec/Belje | F – Food & Beverages | 21 April 08 |
| <u>ALH</u> | U - Accommodation & Tourism Services | 17 Jan07 |
| <u>Agrokor</u> | F - Food & Beverages | 5 May06 |
| <u>PBZ Privredna Banka Zagreb</u> | O - Finance & Insurance | 8 Oct04 |
| <u>Schwarz group</u> | M –Industrial & Consumer Prod. | 2004 |
| <u>Viktor Lenac d.d.</u> | M - Industrial & Consumer Prod. | 29 May02 |
| <u>Belisce Expansion</u> | J - Pulp & Paper | 26 Mar02 |
| <u>Erste & Steiermarkische Bank d.d. Zagreb II</u> | O - Finance & Insurance | 5 Feb02 |
| <u>Croatia Banka Pre-Privatization Loan</u> | O - Finance & Insurance | 29 May01 |
| <u>Pliva</u> | G - Chemicals | 29 Sep00 |

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|--|--|----------|
| <u>Viktor Lenac d.d.</u> | M - Industrial & Consumer Products | 30 Sep99 |
| <u>Bjelovarska Banka Credit Facility</u> | O - Finance & Insurance | 6 Apr99 |
| <u>Croatia Capital Partnership L.P.</u> | P - Collective Investment Vehicles | 15 Jun98 |
| <u>Belisce</u> | M - Industrial & Consumer Products | 18 Feb98 |
| <u>Small Business Finance Facility/Alpe Jadran Banka</u> | O - Finance & Insurance | 25 Nov97 |
| <u>Tvornica Cementa Koromacno d.d.</u> | H - Nonmetallic Mineral Product Manufacturing | 28 Mar97 |
| <u>Trscanska Stedionica - Banka D.D.</u> | O - Finance & Insurance | 20 Oct95 |

Strategy

- During the next 3-4 years IFC focus is:
 - Continue to **support post-privatization** restructuring in, agribusiness/food processing, retail, and construction material;
 - **Support local companies** to become more competitive in domestic markets and expand in other countries in the region;
 - In the **financial sector**, given that the banking sector is in a well developed stage and highly competitive, IFC will focus mostly on equity and quasi-equity products for smaller banks. When the crisis is over, limited offering of senior debt to larger banks for special products, including Energy Efficiency;
 - In the **infrastructure**, in close coordination with the Bank, IFC will consider financing ports, renewable energy, and assist the government in attracting private investors and operators through **PPP approaches**;
 - Consider **sub-sovereign financing** infrastructure projects including the development of landfills.

Recent Investments:

- FY09: **CMC Sisak** - €40 million investment, for post-privatization restructuring and financing of the purchase of a new electric-arc furnace;
- FY09: **Frikom** - €40 million loan to Frikom Agrokor's ice-cream and frozen food subsidiary in Serbia, for investments in new processing and cooling equipment, storages and fruit and vegetable farms.

- **FY08: PIK Vrbovec and Belje** - EUR40 million repeat investment, for continuation of their post-privatization and expansion program.
- **FY07: Adriatic Luxury Hotel** - EUR39.5 million debt and equity financing for one of the largest tourism company focusing on high quality services.
- **FY06: Agrokor** -\$49 million loan to the largest food and retail group in former Yugoslavia, for post-privatization investments in two meat production and processing companies, PIK Vrbovec and Belje.
- **FY05: Privredna Banka Zagreb (PBZ)** - \$99.4 million loan to the second largest commercial bank in Croatia, to enhance its long term lending to retail mortgage customers and small enterprises;
- **FY05: Lidl a discount store chain** - US\$50 million loan to help the company expand into Croatia and focus on second tier cities and relatively remote areas.

IFC Portfolio in Croatia

Portfolio table

| Commitment Fiscal Year | Institution Short Name | LN Cmt'd - IFC | ET Cmt'd - IFC | QL + QE Cmt'd - IFC | ALL Cmt'd - IFC | ALL Cmt'd - Part | LN Out - IFC | ET Out - IFC | QL + QE Out - IFC | ALL Out - IFC | ALL Out - Part |
|------------------------|----------------------------------|----------------|----------------|---------------------|-----------------|------------------|---------------|--------------|-------------------|---------------|----------------|
| 1990/ 1998/ 1999/ 2003 | Belisce | 8.92 | 0 | 0 | 8.92 | 0 | 8.92 | 0 | 0 | 8.92 | 0.00 |
| 2006/ 2008 | Belje | 74.24 | 0 | 0 | 74.24 | 0 | 74.24 | 0 | 0 | 74.24 | 0.00 |
| 2009 | CMC Sisak | 57.11 | 0 | 0 | 57.11 | 0 | 0 | 0 | 0 | 0 | 0.00 |
| 1999 | Croatia Capital | 0 | 0.33 | 0 | 0.33 | 0 | 0 | 0.00 | 0 | 0.00 | 0.00 |
| 2000/ 2003 | E&S Bank | 11.42 | 0 | 0 | 11.42 | 0 | 11.42 | 0 | 0 | 11.42 | 0.00 |
| 2007 | GSHR Holding Ltd | 39.26 | 4.90 | 0 | 44.16 | 27.13 | 39.26 | 2.20 | 0 | 41.46 | 27.13 |
| 2005 | PBZ | 78.52 | 0 | 0 | 78.52 | 0 | 78.52 | 0 | 0 | 78.52 | 0.00 |
| 2008 | PIK Vrbovec | 28.55 | 0 | 0 | 28.55 | 0 | 28.55 | 0 | 0 | 28.55 | 0.00 |
| 2004/ 2005 | Schwarz Group | 33.91 | 0 | 0 | 33.91 | 0 | 33.91 | 0 | 0 | 33.91 | 0.00 |
| Total Portfolio | | 331.94 | 5.23 | 0 | 337.17 | 27.13 | 274.83 | 2.20 | 0 | 277.03 | 27.13 |

CMC

Sisak Steel Mill, founded in 1938, has always been a true symbol of the City. Almost 50, 000 of Sisak inhabitants are proud of their industrial past and were witnesses to many risings and falls of the Mill. During the 1991-1995 war, the City and the Mill were greatly damaged and Sisak was left without a huge part of its industrial bloodstream.

For the last 17 years the Mill has been operating on 20 % capacity, lacking working capital, losing customers and making losses. After a number of unsuccessful privatizations in Sept. 2007 the mill was sold to CMC from USA which had already invested over E130 in the restructuring of the mill. A team of transition managers from CMC Polish operations has been assigned to assist the Mill in this early stage of recuperation and things are slowly, but surely, moving forward.

To improve the Company's competitiveness, CMC Sisak is undertaking a €160 million turn-around investment program to (i) refinance the debt that was assumed before the privatization, (ii) replace obsolete equipment with modern technology, and (iii) fund working capital requirements.

The Project aims to achieve operational efficiency in line with international standards by (a) reducing manufacturing costs, (b) improving product mix and quality, and (c) reducing emissions. Replacing the existing obsolete electrical arc furnace with a modern unit will substantially reduce greenhouse gas emissions, which will positively impact climate change.

The company has changed its strategy, in response to the prevailing economic environment. It stopped manufacturing cold drawn and welded pipes and will concentrate on value added seamless pipes. It is gradually switching its product line to service the oil industry; in particular it is targeting deeper wells, harder to reach oil, in harsher (harder and more corrosive) environments.

Frikom

Agrokor's Serbian subsidiary, Frikom, is engaged in the ice-cream and frozen food business. Agrokor acquired Frikom in 2003 through a privatization, and successfully scaled up Frikom's business in Serbia. Frikom in turn acquired Nova Sloga through a privatization in 2008, for its potential in vegetables and its untapped mineral water source. Nova Sloga's operations are an excellent fit into the Group: the water business can leverage synergies with Agrokor's subsidiary Jamnica, the largest regional mineral water producer, while the frozen fruit and vegetable business fits within Frikom's and Ledo's frozen food and vegetable operations (leaders in Serbia and Croatia respectively, and Agrokor subsidiaries), and would provide, once upgraded, a source of quality raw material.

The IFC financing was a €40 million loan for the purpose of refinancing Frikom's short term debt with long term (this is part of the Group's financial strategy) ,for refinancing Nova Sloga's acquisition cost to Agrokor; for investing into a new frozen vegetables production line and a new ice-cream machine at Frikom; for the construction and equipment of cold storage at Frikom;

PIK Vrbovec/Belje

This Project is the continuation of Agrokor's post-privatization investments in PIK Vrbovec undertaken with IFC's support from 2005 to 2007.

The project cost is a Euro105 million investment plan for 2008-2011 for PIK Vrbovec and Belje (Agrokor group), to (i) increase their production capacity, and (b) finance the working capital and other intangible investments needed to support their growth. IFC provided €40 million in long-term debt.

Agrokor

Agrokor is a privately held company, majority owned by Mr. Ivica Todoric. Over the last 25 years, Agrokor has expanded from a small family business for flower production and trade into a EUR 1.8 billion revenue company in 2004. The group consolidates over 30 companies. Its core businesses are: the production and distribution of food and beverage, food retailing, and the trading, production, processing and storage of agricultural goods.

In March 2005, Agrokor acquired 52% of a large agricultural enterprise, Belje d.d., and 99% of a slaughterhouse and meat processing plant, PIK Vrbovec, through a privatization process. Belje, a 300-year-old company, is located in the Baranja province, and operates in food manufacturing

(packaged meat and cheese), livestock, and 20,000 ha of arable land for crop farming, and flour/feed milling. PIK Vrbovec, located near Zagreb, is one of the largest meat companies in Croatia and is mainly involved in pig and cattle production, slaughter, and fresh and processed meat production.

The project is to restructure, modernize and expand PIK Vrbovec and Belje. Belje and PIK Vrbovec have not been managed commercially in the past. They both lacked significant investment in productive assets, modern sales and marketing management, and a bottom-line oriented corporate culture. Agrokor has extensive experience in acquisitions and operational restructurings. Its strategy is to support the two companies with management capacity and investment to realize their commercial potential. The newly privatized companies present strong synergies among themselves and with other Agrokor Group subsidiaries. In addition to investments in staff and management (recruitment, training and MIS investments), the project will bring the currently run down productive assets up to standards, de-bottleneck and expand the production lines.

Total project cost is estimated at EUR 65 million over the next few years plus working capital and contingencies. The IFC investment is an A-Loan of up to EUR 40 million for IFC's own account.

Privredna Banka Zagreb

Privredna banka Zagreb (PBZ) is Croatia's second largest commercial bank. PBZ used to be a state-owned bank and was privatized in 2000 when Gruppo Intesa of Italy acquired a controlling stake of 66.3%. Gruppo Intesa, a private sector corporation, is one of the largest European banks and has a strong multinational presence. It has total assets of EUR 260 billion and for the year ended December 31, 2003, it reported a Net Income of EUR 1.2 billion. Subsequently, in the second round of privatization in 2002, Gruppo Intesa increased its stake to 76.3% and the European Bank for Reconstruction and Development (EBRD) acquired an equity stake of 20.79%.

PBZ is a full-fledged commercial bank and offers the full range of banking products to corporate and retail customers in Croatia. The proposed project aims to provide a long term loan facility to PBZ to enable it to enhance long term lending to its customers, particularly to retail mortgage customers and small enterprises.

Total project size and IFC loan amount is EUR 92 million for IFC's own account.

Adriatic Luxury Hotels

Adriatic Luxury Hotels ("ALH" or the "company"), one of the leading tourism companies in Croatia, owns and operates 809 rooms spread across five hotels on the Adriatic coast. ALH is part of the GS Hotels and Resorts (or GSHR) portfolio of hotel companies has been active in Croatia since 1995. Its long-term strategy involves positioning itself as a leading player in the luxury tourism segment in Croatia and it plans to achieve this by acquiring and building new properties in key locations.

ALH owns and operates five hotels on the Adriatic coast. One of the hotels is located in the northern part of the Adriatic coast (in the city of Rijeka) and the other four in the southern part, close to the old city of Dubrovnik. Dubrovnik is the main port and tourist center of the southern Croatian coast. It is one of the famous historical cities of Europe and the jewel in Croatia's tourism crown, with its

unique old city, designated as a world cultural heritage site and under UNESCO protection. Dubrovnik has a population of approximately 50,000 and an economy based on tourism and seafaring.

The project IFC supported involves the restructuring and the development of ALH Group (ALH Group), a group specialized in the development, acquisition and management of hospitality properties in the region, focusing on, but not limited to, Croatia and neighboring countries.

The total project cost is estimated at approximately €330 million. The IFC investment is a €27.5 million 'A' loan for IFC's own account and an equity investment of €12.0 million.

Upcoming Projects – Early leads:

- Nexe: Completed a due diligence for a corporate balance restructuring of the Group, which would help them with refinancing and further expansion in the region.
- Geofoto: Signed a Mandate to invest equity in one of Europe's largest geo-informatics and map producing IT companies, to support their further expansion.
- ENERCAP: Started initial discussions with a RE fund for a potential equity investment in a 42MW wind project in Croatia.
- Initial discussions with Dalekovod and HEP (joint venture with Verbund/Bewag) on wind farms.
- Infrastructure Advisory: Zareb airport, potential mandate for the concession of the new terminal.

Advisory Services

The Advisory Services Department of IFC provides advisory assistance, primarily to governments, on Private-Sector Participation in infrastructure and other public services, as well as the restructuring of state-owned enterprises. The services help to establish Public-Private Partnerships through which governments can obtain increased services under budget constraints while benefiting from private sector expertise, management, and finance.

IFC is the only multilateral institution to offer direct advisory services to governments on implementing private sector participation transactions.

Since 1986, IFC's Advisory Services has established an impressive record, spanning over 100 projects in 67 countries. Its services go beyond transaction support, to include advice on policy and regulatory issues, optimizing commercial value while being sensitive to the country's economic and political context.

Its efforts focus primarily on expanding access to public services such as power, water and sanitation, transport, and, more recently, health services, where it can help strike the balance between the commitment to sustainable development and an understanding of what investors need.

IFC began advisory work in Croatia in 1996. Since then, the program has included institutional framework surveys for the growth of the factoring industry and support to SMEs in the shipping and general manufacturing sectors.

IFC projects/services that are active:

The Croatian government requested IFC assistance in improving the quality of regulations affecting the start up and operation of businesses by introducing a systematic approach for reviewing existing and new regulations. In 2006, the Government initiated the Regulatory Guillotine exercise which was designed and implemented with support from IFC's FIAS, jointly with USAID. When the first phase was completed on July 1, 2007, the government issued a decision to accept the recommendations including the elimination or simplification of 55% all inventoried business regulations. Based on preliminary estimates, these reforms will save businesses some US\$ 250 million in compliance costs. The reforms are expected to improve Croatia's performance on key Doing Business indicators including dealing with licenses, trading across borders, paying taxes, and starting a business.

IFC is implementing the Southeast Europe Sub-National Doing Business project with FMTAAS funding. The goal of this project is to provide tools and motivation for reforms in order to lower administrative barriers at the sub-national and regional level and reduce transaction costs for firms (i.e. time, cost, procedures) to open a business, register property, enforce contracts and deal with licenses. The project will create benchmarks of the business environment in 16 locations from 6 countries, including Croatia, and 1 territory of the South East Europe (SEE) region. The preliminary results of the Sub-national Doing Business report were presented and discussed with official representatives from all levels of government involved in the project.

IFC has supported one of his client companies, Agrokor, Croatia's largest retail and agribusiness group, using German Trust Fund. Belje, a 300-year-old company, operates in crop farming, livestock (pigs, cattle and dairy cows), food manufacturing (packaged meat and cheese), and flour and feed milling. Through this advisory project, IFC assessed the feasibility of anaerobic digestion of animal rearing waste and wastewater to produce biogas and high quality organic fertilizer from residuals, and to improve the current state of waste management and generate benefits in terms of sustainable waste-to-energy generated revenues.

IFC is implementing or has completed the following projects:

- 1. Feasibility Analysis for the Establishment of a Primary Housing Finance Institution, 2003 – 2005
With funding from the Government of Spain**

Increased access to housing finance helps to reduce poverty because it provides marketable collateral for home owners and leads to improved living conditions. A key strategy in IFC's approach to housing sector growth is the establishment of primary and secondary housing finance institutions.

This program is documenting demand and identifying gaps in current housing finance systems in Croatia, as well as in Bosnia, Kosovo, Macedonia and Serbia. It will then use the data to create action plans for improving the affordability and availability of housing funds for middle and lower income households and, where feasible, generate business viability plans for primary mortgage finance companies in each study country.

The study will identify operational, legal and regulatory obstacles and will propose solutions for overcoming them. These improvements to the business environment are necessary before private home ownership can become a reality for lower and middle income households.

2. Pre-Development Strategy for the Constanza-Pancevo-Omisalj-Trieste (CPOT) Pipeline in Croatia, Romania and Serbia, Phases 1 & 2, 2003 - 2005
Funded by the Government of Italy, \$421,000

This program will help to prepare for the development of the CPOT oil pipeline, a regional initiative developed in response to the need for crude oil export routes from the Caspian region to European markets that bypass the environmentally sensitive Bosphorous straits. The project will clarify the economic and commercial viability of the pipeline by testing its capacity to attract interest from private investors. It will also provide expertise to the governments of Croatia, Romania and Serbia on the best economic, commercial, political and technical options to pursue. This initiative is the first regional integration effort in Southeast Europe energy infrastructure to be carried out through public-private partnerships.

3. Factoring Study 2000/2001
With funding from the Government of Austria

When a successful Austrian factoring company asked IFC for help to develop a factoring company in Croatia, IFC stepped in to help the Croatian government identify regulatory issues that would inhibit the growth of this industry and also to draft necessary amendments to existing legislation in order to overcome them. Findings were presented to the Croatian Ministry of Finance and the National Bank of Croatia, and the Bank issued a regulatory decree reducing the starting capital requirements for factoring from \$10.5 million to \$2 million, putting factoring entities in Croatia on more even footing with factoring companies internationally. A second decree enabled other financial institutions in Croatia such as leasing companies to establish factoring arms.

4. Feasibility Study for Viktor Lenac Shipyard, 2002-2003
With funding from the IFC TA Fund

The privatization of state-owned enterprises is an integral part of IFC's role in spurring private sector growth in Croatia, so when the management of Viktor Lenac Shipyard asked for assistance with pre-privatization restructuring, IFC's advisory program produced technical and marketing strategies for modernization, and also identified potential investors. Viktor Lenac is now Croatia's only major shipyard that is privately held, and it continues to have demonstration value for the rest of the industry.