



### Highlights of the Month

Production of Bio-ethanol, robots and booming real estate are just some of the news that are brought to you by SIEPA Newsletter.

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### Meet SIEPA

This month we are present at fairs in Germany, UAE and Russia looking forward to meeting you. [Read more >>>](#)

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### Industry Close Up **Pharmaceutical Industry**

The market has been projected to grow at an average rate of 8% until 2012, maintaining high growth. [Read more >>>](#)

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### Investor Personally

#### **Davor Velickovski,**

General Manager Falc Serbia

Our message to future investors is to go ahead with their investments without prejudice. [Read more >>>](#)

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### Monthly Reporting

#### **Growing Number of Internet Users in Serbia**

Check why the greatest Internet growth rate is expected in Serbia.

[Read more >>>](#)

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### Arts & Entertainment

Movie festival and guitar art festival are the largest happenings in February but there is so much more. [Read more >>>](#)

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### The Other Home

#### **Alex Otto**

Student, Germany

Find out why students love Belgrade. [Read more >>>](#)

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### Hot Spots

#### **Hotel Fantast**

A fairy tale castle turned into a hotel for relaxation and enjoyment.

[Read more >>>](#)

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## Energy Agreement in Pipeline

Agreement on energy cooperation between Russian Federation and Serbia, in field of gas and oil economy, and the Protocol on basic terms for acquisition of Petroleum Industry of Serbia were signed on January 25, 2008, in Moscow. The Agreement includes the following: construction of main gas pipeline through Serbia with the capacity of minimum of 10 billion cubic meters of natural gas, sale of 51% of NIS for €400 million and minimum of €500 million of investments in modernization of the company, as well as construction of underground gas storage in Banatski Dvor, in Northern Serbia.

## Apatin Assisting New Investment Projects

By renting the land on 99 years period at the price of RSD 1 per square meter, seven companies have commenced the construction of industrial premises in Apatin. These companies will hire between 150 and 200 workers, and are obliged to finish construction within 2 years. Municipality of Apatin invested nearly RSD 20 million in the construction of public utility infrastructure on this territory. Sewerage, water supply system, substation and junctions have already been built.

## Tourism Successes

Novi Sad has won the prize on the tourism fair Futur in Madrid for the development of the overall tourist offer of this city which has recorded a 123% increase of overnight stays in 2007. The award was presented by the Trade Leader's Club of Madrid.

As a result of the Belgrade's and Serbia's Tourist Organization successful presentation at international trade fair in Lilestron, Norway Norwegian low cost carrier Norwegian Air Shuttle will introduce two new flights to Serbia, Mondays and Fridays, starting March 2008.

## Visit Serbia, On Line Booking

VisitSerbia.org is an on-line reservation service for accommodation in Serbia. It's simple and easy to use booking engine for making online and offline reservations for all kinds of accommodations in Serbia - from small family hotels, chain hotels, airport hotels, motels, luxury hotels to low budget hotels, rooms and holiday flats, bungalows, camps and holiday homes and hunting lodges across Serbia. This free of charge service is easy to use and guarantees the best prices.

## New Brick Factory by Wienerberger

Company Wienerberger International, a daughter company of Wienerberger concern the world largest manufacturer of bricks, announced the acquisition of factory for production of tiles in Mali Idjos, Northern Vojvodina, and plans to invest €12 million in modernization of technology and production.

## New Clothing Production

SIEPA supported Greek-Cypriot company KSK Clothing with €2.8 million through National Investment Plan for opening the production unit of ready-made clothing in the premises of former textile industry Inkol in Leskovac. The investment

will increase the number of jobs from current 200 to about 1,500 until the end of the year.

## Meet SIEPA

February 7<sup>th</sup> - 9<sup>th</sup>, 2008  
Fruit Logistica,  
Berlin, Germany

February 21<sup>st</sup> - 24<sup>th</sup>, 2008  
Biofach 2008,  
Nuremberg, Germany

February 24<sup>th</sup> - 27<sup>th</sup>, 2008  
Gulfood 2008,  
Dubai, UAE

February 26<sup>th</sup> - 29<sup>th</sup>, 2008  
CPM Moscow,  
Moscow, Russia

## JAT to Be Privatized

General Manager of the Serbian national airliner Jat Airways, Sasa Vlasisavljevic, said that the key priority of the company is to have the tender for privatization announced in March or April. This will bring the fresh capital needed for both revitalization of the existing fleet and procurement of new airplanes. The amount of business is on the constant rise and JAT plans to transport over 1.5 million passengers in 2008, this should be the best business year since 1990. Privatization strategy, prepared by the US consulting company Rothschild, should soon be discussed and adopted by the Government of Serbia.

## Intensive Investment in Equipment

Representatives of the Italian company Biesse, which is one of the leading manufacturers of wood-processing machines in the world, claim that their researches showed Serbia will triple the furniture export within next two years. Commercial Manager of Biesse for East Europe, Zeljko Studen supported such claim with the data showing that Serbia invests €1 million in import of Biesse equipment every month. For comparison, monthly sales of Biesse machines on the Italian market amounts to €4 million.

## DHL Center for the Region

General Manager of DHL International Beograd, Darko Babic, announced that DHL plans to introduce daily flight from DHL center in Leipzig to Belgrade and make Serbian capital a link between Western Balkans and the rest of the world.

Belgrade will be receiving express DHL deliveries from Macedonia, Albania, Montenegro, and Bosnia and Herzegovina and forward it throughout the world.

## Booming Real Estate

Representatives of MPC Properties said that this Serbian company, partially owned by Merrill Lynch investment bank, will invest close to €550 million into real estate in Serbia and the region prior to 2009. Manager for Global Investments in Merrill Lynch, Robert Svajcer, said that trade center within Usce complex in Belgrade would be finished by the end of the year and that construction of the second tower will follow.

## Bio-ethanol Refinery To Be Built

International bio-tech company Alltech is planning to build a

bio-refinery for production of bio-ethanol in Senta. The owner of the company, Pierce Lions, said that 70% of production would come from corn and 30% from cellulose. Bio-ethanol will be produced using new technology being the first of a kind in Europe. On the occasion, Minister of Environment Protection of Serbia, Sasa Dragin said that any Green Technology is welcome and announced that the state is preparing some benefits for investments in such technologies.

## Robots in Serbia

Robotakt is the only Serbian company that assembles robots for domestic industry, and has extensive cooperation with international companies in the field. One of the world's largest manufacturers of ABB is using the expertise of Robotakt for upgrading their products to the needs of the market by installing software and all other necessary equipment.

## SIEPA

### Serbia at EXPO 2010

SIEPA, as the body in charge of organizing Serbia's presentation at EXPO 2010 in Shanghai, has published a public call for development of creative concept and architectural solution of the Serbian pavilion at this world exhibition. This will be Serbia's first appearance at this exhibition that will also be the largest yet. Some estimates say that 70-100 million people will visit the exhibition during its six months duration from May 1st – October 31st, 2010. The main theme of EXPO 2010 will be Better City, Better Life and we expect to see many creative concepts of

how people imagine the Serbian 1,000 square meter pavilion. The deadline for submission of architectural projects is April 28th, 2008. For any further information and tender documentation, please contact Ms. Milica Zatezalo at SIEPA.

### Green Week

SIEPA has organized the Serbian national stand at the large international food market Green Week in Berlin, from January 18th to 27th, with the support of Ministry of Agriculture, Forestry and Waterpower Engineering of Serbia and German GTZ. Besides supporting the pre-

sentation of selected Serbian companies, the delegation took part in the ministerial conference named Global Competition for Agricultural Raw Materials. This year, the visitors of Green Week were able to see products of 1,600 exhibitors from 52 countries.

### Fifth Round of SIEPA's Financial Support for New Employment

Fifteen companies will open 1,448 new job positions in 14 municipalities by investing €68.3 million. As an incentive, they will get €3.152 million from the National Investment Plan. For more about this great opportunity click here.

## Pharmaceutical Industry

Source: Ekonomist Magazine

Faster economic development and a more stable political environment, along with a VAT cut from 18 to 8 percent on pharmaceutical products, are factors that have aided the growth of the Serbian pharmaceutical market. The market has been projected to grow at an average rate of 8 percent until 2012, which would allow the Serbian pharmaceutical industry to maintain high growth rates. However, a standard problem of the industry is an administrative pricing control by the state.

Revenue in the entire sector grew 18 percent year-to-year, reaching € 400 million. While over 30% of market demand is met with imported pharmaceuticals, these five companies cover 90% of the remaining 66% share, a clear sign of their dominant position in the market.

The market has been projected to grow at an average rate of 8 percent until 2012, maintaining high growth.

The undisputed leader in this sector is Hemofarm Group, with total revenue of € 221 million between its three companies, 13% up from 2005, which is higher than the rest of the companies in the list put together. In 2006, Hemofarm Group exported € 60 million worth of pharmaceuticals and ranked sixth among Serbia's top exporters. A drop in the EBITDA margin from 20% in 2005 to 8.2% in 2006 resulted in the company's profitability falling below the sector's average.

After Stada Group acquired Hemofarm the company taken off the Belgrade Stock Exchange, leaving investors without the most traded share in the stock market. Hemofarm has started to introduce GMP standards with loans from the EBRD. Another factor in the company's growth are investments to expand production capacities in Russia, which now comply with all of the standards and criteria required by the EU.

Galenika finally resolved their ownership tussle with Valeant Pharmaceuticals International with an out-of-court settlement, both parties agreeing that Serbia pay \$33 million compensation. Although one of the main burdens has been unloaded off the company's shoulders, the ownership transformation of Galenika is a challenge that the company has yet to face. According to the proposal of the Ministry of Economy and Regional Development IPO procedure for Galenika and few other companies will be carried out in 2008 and 2009. Galenika was a solid achiever in 2006 with a 25% revenue growth margin. The company also raised profits to a 30% EBITDA margin and was among the top 50 exporters in Serbia. Leskovac-based pharmaceutical company Zdravlje, owned by Actavis (Iceland) since 2002, finished third in this sector. Zdravlje is looking to boost their

the privatization of Jugoremedija was rescinded, but small shareholders, who are the majority owners of the company when pooled together, took control in March 2007. Despite all the problems, the company's revenue was €24 million in 2006, a 33% year-to-year growth margin. Habitfarm's 36% revenue growth margin in 2006, although lower than in 2005 (50%) lead to a significant increase of the company's share within the Serbian pharmaceutical market. Habitfarm and Jugoremedija also made it to the list of the largest exporters in Serbia in 2006.

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Galenika and Zdravlje with €31,000 and 34,000 revenue per employee are relatively low on productivity,



growth by reconstructing their facilities, distribution centers and microbiological laboratories. €8 million was invested in 2006, while total investments by Actavis in the last five years exceeded €30 million. As a result, the company began producing pharmaceuticals in line with GMP standards in the second half of 2007. The company revenue in 2006 accounts for 10% of the entire group, resulting from a 14% growth margin year-to-year.

Other key players include Jugoremedija and Habitfarm with combined revenue that participates with a 6% share in the total revenue of the group. In mid-2006

compared to Habitfarm's €281,000, Jugoremedija's €108,000 and Hemofarm's €63,000 per employee. Comparing this data to pharmaceutical companies in the region, such as Croatia's Pliva (€133,000 per employee) and Slovenia's Krka (€122,000), we can see that Habitfarm and Jugoremedija have achieved an impressive level of productivity, which is on the rise along with the number of employees in these two companies since 2005. Zdravlje's growth in productivity can partially be accounted for by cuts in the number of employees.



**Davor Velickovski**  
General Manager Falc Serbia

Why did you choose to invest in Serbia?

For the last 15 years we were working in Serbia and we were always satisfied with quality of workmanship and finished product we were getting. Serbia has great tradition in footwear industry and is well known for its results. That tells us that in the past it was greatly invested in this branch of industry. Because of above stated reasons and geographical closeness to Italy where our headquarters are located, we decided that Serbia is the right place for our company. We did not make a mistake.

How would you rate your success from one to five in Serbia?

We are very satisfied with what we accomplished and with our results. If I needed to grade our success – I would rate it at 4. We are in a state of constant expansion and we still did not achieve maximum in Serbia. My expectation is that we will be at grade 5 in a very near future.

Have you acquired other licenses besides Moschino and Kenzo or do you have any plans to do so in near future?

Our main brand Naturino is presently the leader in the world when it comes to children's footwear. Naturino shoes are being sold at 5,000 locations throughout the globe. Also, in the program with licenses Moschino and Kenzo we are in the very top of footwear industry. For these reasons, we are currently not interested in new brands. Of course, it does not mean that we will not be in the future.

Do you plan opening or expanding production capacities in Serbia?

In the last four years Falc group made great investments in Serbia. In 2004 we purchased a giant of ex-Yugoslavia - Leda, Knjazevac. In 2005, Fruska Gora, Ruma and

at the end of 2006 Toza, Zrenjanin. Throughout these years we made thorough analysis and statistical data are telling us that we should keep investing in Serbia. Currently, we are working on some projects but unfortunately I am not at liberty to discuss them at this point.



Given your large experience in Serbia what would be your message to potential foreign investors?

In the past decade Serbia went through tough political and economic changes which greatly affected development of the country. As any country in the period of positive transition Serbia is going thru economical rise and is becoming modern European country where business laws and rules absolutely exist.

Foreign investors are completely protected and they can be sure that their investment is safe. We have great experience in Serbia and our message to future investors is to go ahead with their investments without prejudice. Certainly, they will be pleasantly surprised with results.



## Growing Number of Internet Users in Serbia

Source: GfK Belgrade, Omnibus January 2008 

With 37% of people over 15 years of age using Internet, Serbia currently ranks average among the Central and Eastern European (CEE) countries. The highest Internet penetration is recorded in Slovenia (62%) and the lowest in Ukraine (12%). There is a noticeable trend of accelerated increase in number of Internet users in Serbia in 2007 and it is expected to continue in the first half of 2008.

CEE's regional average number of Internet users is 38%. Serbia, with 37%, obviously closely follows this trend. In fact, with respect to Internet penetration, countries that fall behind Serbia are the following: Bulgaria with 31%, Bosnia and Herzegovina (29%), Romania (27%), Russia (24%), and Ukraine with only 12%. Slovenia, on the other hand, with a recorded Internet penetration of 62% is considerably above the average, topping the group with Austria (59%) in the second place.

Internet users in Serbia distinguish themselves in a negative way by their below the average frequency of Internet use. Participation of "Less intensive" users who surf the net several times a month or less frequently in the overall figure of Internet users is among the highest in the region – 35%, compared to the region's average of 21%. 39% of Internet users in Serbia get online daily and another 26% once or several times a week.

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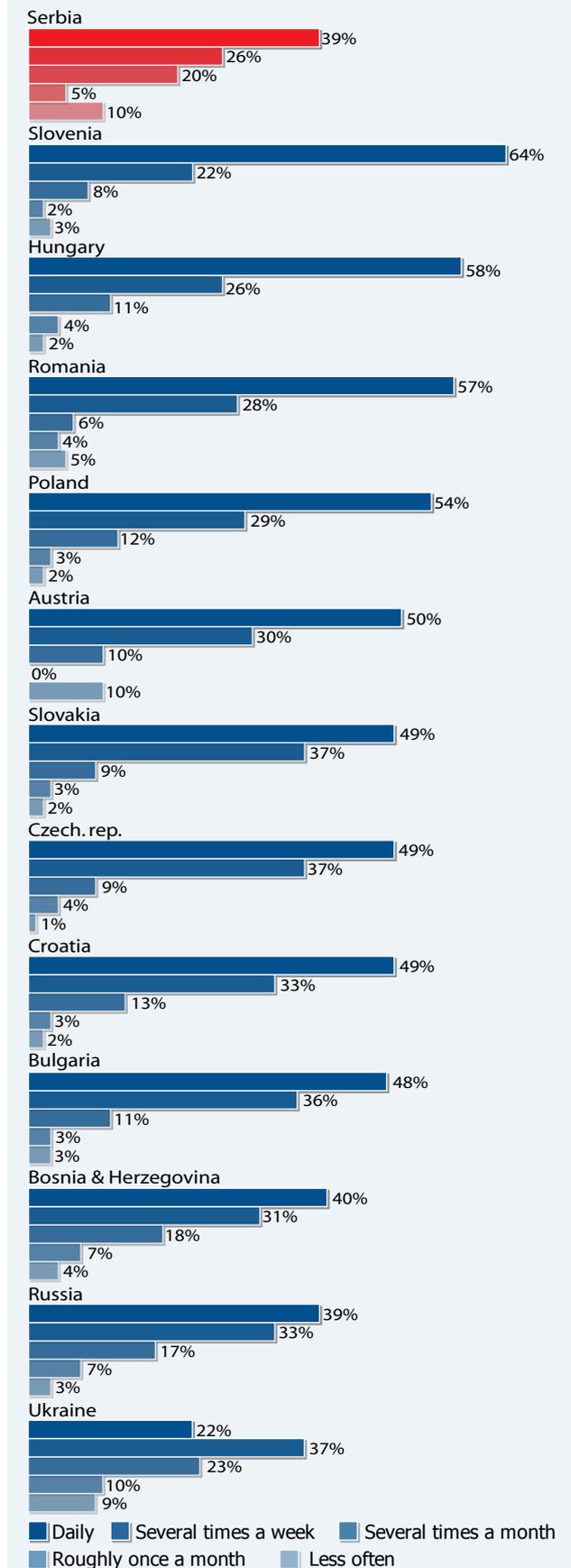
Home is the region's most favorite place when it comes to Internet access – 76%. Workplace is the second most frequent point of access (36%), while a considerably lower number of Internet users gain access from schools & colleges (13%) or Internet cafés and other public places (10%). Serbia's figures and findings with respect to Internet access points are almost identical.

Regarding Internet services used by those in the region, general surfing across various web sites prevails – 86% of all Internet users "explore" the Internet in this way at least once in a while. Sending and receiving emails (83%) and viewing the latest news and information (81%) are next in line. Approximately half (54%) of Internet users, sometimes at least, download music, films or photos from the Internet or chat with other users (52%). 36% at least occasionally, play online PC games while one quarter of all users use online banking (25%) or shop (24%) over the Internet.

Serbia and Bosnia and Herzegovina top the list of expected household Internet users in the region.

People in Serbia use all the services less frequently than in other countries of the region; the finding particularly applies to downloading and uploading of Internet contents, use of Internet for chatting and playing online games. Online banking (15%) and shopping (10%) are also less frequently used – in fact, only Bulgarians and people in Bosnia and Herzegovina use these Internet services less frequently.

### How often do you use the Internet in general?



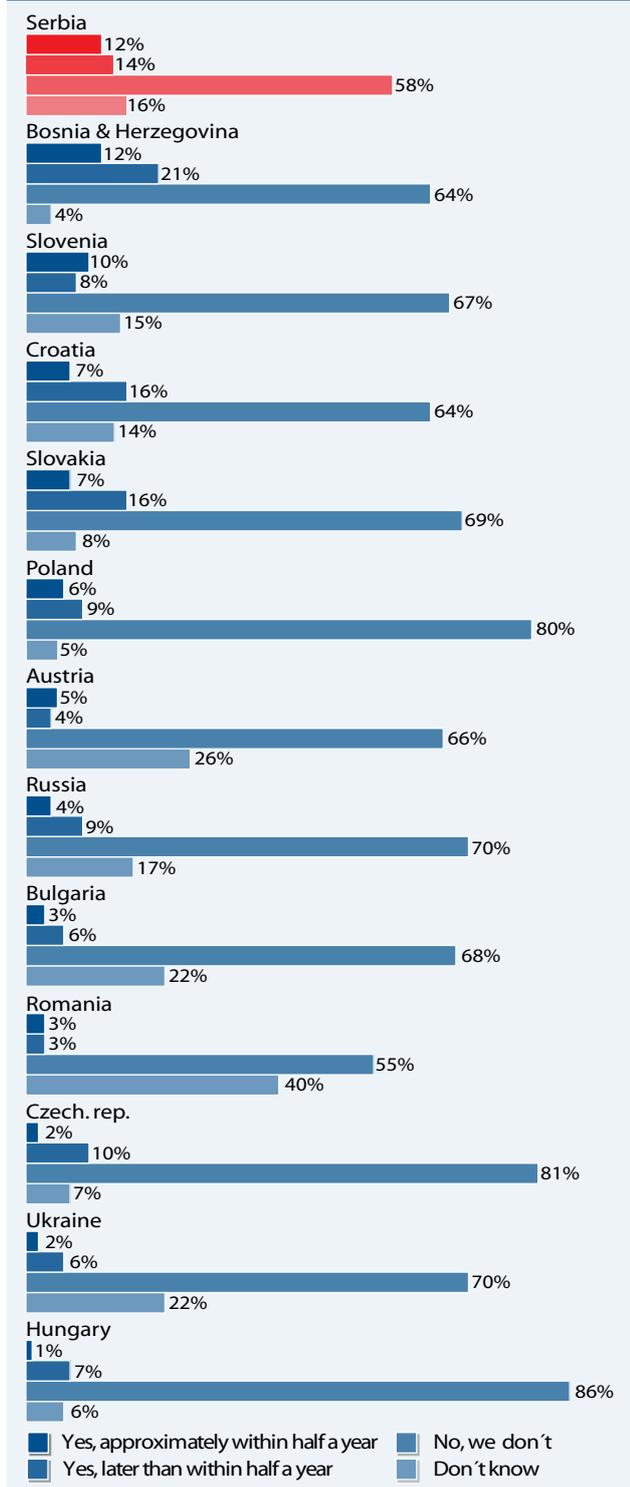
Although Serbia is at average when looking at Internet access, it is quite different from other countries in the region when it comes to the number of households planning to get it in the near future –12%. Serbia and Bosnia and Herzegovina top the list of expected household Internet users in the region. Based on this particular piece of information, the trend of an accelerated increase in the number of Internet users in Serbia initiated in

2007 (from 30% to 37% in the period February – October 2007) is expected to continue at least in the first half of 2008.

Certain groups tend to use internet more, the so called early adopters, younger people (up to 39 years of age), people living in urban settlements and people from upper social groups namely people with higher income and level of education.

Internet use noticeably varies across regions within the country. For example, almost half of the population living in Belgrade and Vojvodina use the Internet compared to a considerably lower number of Internet enthusiasts in central Serbia where only a quarter of people surf the net. In addition, Serbia is still in the phase when Internet use penetration is slightly higher among men (40%) than among women (33%).

**Do you plan to get access to the Internet for your household?**



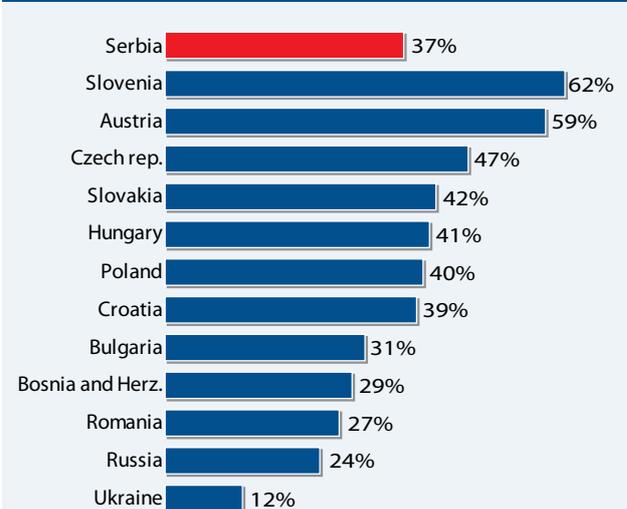
The trend of an accelerated increase in the number of Internet users in Serbia initiated in 2007 is expected to continue at least in the first half of 2008.

An obvious conclusion would be that the future rate of increase in number of Internet users in Serbia depends upon the speed of development of necessary infrastructure in certain parts of the country as well as upon successfulness of an effort to attract the attention of currently less interested and lower income groups.

**The survey**

The survey on Internet use was conducted in 13 countries across Central and Eastern Europe. In addition to the use of Internet, the research covered frequency, place and purpose of its use as well as assessment of future trends. The applied methodology implies quantitative survey among the population over 15 years of age. The sample was national and representative of the population of the countries involved in the survey, consisting of 1,000 respondents per country. The field part of the survey was carried out in September-October 2007. The following countries participated in the survey: Austria, Bosnia and Herzegovina, Bulgaria, Czech Republic, Croatia, Hungary, Poland, Romania, Russia, Slovakia, Slovenia, Serbia, and Ukraine.

**Do you personally use the Internet?**



## Belgrade

### January 17 – February 15, 2008 Organic in the Works of Kalatrava Exhibition of photographs

Photographs by Lus Martin are presenting the greatest works of a Spanish architect Santiago Kalavatra at the Servantes Institute. Since the 80's, when the architect started designing his first objects, up until the City of arts and sciences his works were influenced by gothic and Gaudi. Kalavtra's supporting elements remind of animal parts. Also, there is a clear interconnection between organic, animal, plant, and clear Mediterranean light of Valencia, his birth city.

### February 4 - 10, 2008 Gitar art festival

Guitar Art Festival represents a professional and expert event that gathers

classical guitarists of all kinds: amateurs, primary and secondary music schools pupils, students, as well as their teachers and professors, and eminent guests - leading world guitarists. The festival will include master classes, lectures and promotion, competition, concerts, exhibitions, daily café with guests of the festival and midnight art café club.

### February 22 – March 2, 2007 FEST 08 – Movie Festival

The 36<sup>th</sup> FEST will present 75 premieres of the best new films from the whole world, the laureates of the most prestigious international festivals, recipients of the most distinguished film awards and works of the most topical authors and actors of global cinematography. The festival will be held in the already traditional venues: Sava Center as the official host, Belgrade Cultural Center, Dom Sindikata Hall and Museum of the Yugoslav Film Archive.

## Hot Spots

### Hotel Fantast \*\*\*

At the end of XX century a member of the richest family in Vojvodina, Bogdan Dundjerski, built a 1,500m<sup>2</sup> fairy tale castle located 15 km from the city Becej on the way to Backa Topola. Today, it is the hotel Fantast whose complex includes a chapel, small castle, park on a lake, playground for children, and two tennis courts. A guided tour through the castle is available for those wishing to find out more of its history. The hotel contains 2 suites, 17 double bedrooms, restaurant sitting up to 90 attendants, café bar, conference hall for up to 80 participants, festive saloon, and a car park.

Backo-topolski put bb, 21220 Becej



## The Other Home

### Alex Otto

Student, Germany

**As a student how would you rate entertainment life in the capital?**

Nightlife in Belgrade is something that every foreigner is fond of. You can find wide spectra of clubs and bars that work every night. Cinemas stay open until 1 am, restaurants until midnight and nightclubs until 6 am, so you don't have to wait for weekends to go out! Belgrade has excellent nightlife with a range of performance arts to enjoy: operas, concerts, theatres, many late-night cafes, and clubs.

## Novi Sad

### Permanent collection

Open every day except Monday

### Foreign Art Collection

The largest museum collection of foreign art in our country contains works of Western European schools from the XVI century until the end of the XIX century, mostly from the area of Central Europe (France, Germany, Italy and Austria). There are 136 paintings of foreign artists, 279 pieces and sculptures, period furniture and other items of applied arts to the town of Novi Sad and the Province.

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