



Highlights of the Month

Find out more about the latest investments, trends and developments in Serbia. [Read more >>>](#)



Meet Us

Hear more on real estate during Property Talk about Serbia on May 28, at 10:30 a.m. at the Real Vienna fair. [Read more >>>](#)



Industry Close Up

Retail

Retail remains one of the largest and fastest growing sectors in the Serbian economy. [Read more >>>](#)



Investor Personally Mr. Markus Ries

The plans made when we started our operations in Serbia have all been either successfully completed or are being delivered as scheduled. [Read more >>>](#)



Monthly Reporting

How Do Buyers Choose Shopping Spots

The two most important factors that determine a specific grocery shopping point are product freshness and quality and product assortment. [Read more >>>](#)



Arts & Entertainment

One day each year lovers of art may enjoy a free visit to numerous museums free of charge from 18.00 to 02.00 hrs in more than 20 cities in Serbia. [Read more >>>](#)



The Other Home

Michele Ognissanti, Country Manager Livolsi & Partners S.p.A.
When I come back to Belgrade, even after only two days, something has changed for sure. [Read more >>>](#)



Hot Spots

Krofna Bar

"Take off your slippers and come have a doughnut" slogan invites you to enjoy more than 27 types of doughnuts. [Read more >>>](#)

Serbia Signs SAA with EU

Serbia has signed the Stabilization and Association Agreement with the EU. From the Serbian side, the Agreement was signed by the Deputy Prime Minister Bozidar Djelic, while the EU was represented by the Commissioner for EU Enlargement Olli Rehn and Foreign Affairs Minister of Slovenia Dimitrij Rupel. Agreement will enhance trade and political links between Serbia and the EU and pave the way for Serbia's membership in the European Union.

Meet Us

May 15- 18, 2008

**Mediterranean
Business Partneria,**
Antalya, Turkey

May 22 – 25, 2008

**Baltic-Nordic-Western-Balkans
Business Forum**
Tallinn, Estonia

May 27-29, 2008

Real Vienna, stand A 1006
Vienna, Austria

Memorandum Signed between Fiat and Zastava

On April 30th, 2008 Memorandum on Strategic Cooperation and Investment was signed between the Serbian Minister of Economy and Regional Development, Mladjan Dinkic, and the Vice President of Fiat, Alfredo Altavila. The Memorandum stipulates the establishment of a joint company being 70% owned by Fiat and 30% by the state. Accordingly, Fiat is due to start production of a brand new car in Class A amounting to 200,000 units annually by the end of 2009. In the second phase of the project to start in 2010, the

production of another model from B segment will commence, reaching the annual production of 300,000. Fiat's investment in the first phase will amount to €700 million, whilst the Minister, on behalf of the state, is committed to an investment of €100 million over a 4 year period, ten year tax holiday, no fees for: land, utilities and taxes, together with an establishment of a free zone in Kragujevac. Memorandum also envisages joint venture of the Italian truck manufacturer Iveco and Zastava Kamioni.

A New Tourist Complex

Ministry of Economy and Regional Development has announced that public invitation for selection of co-investor for construction of the tourist center Babin Zub on Mountain Stara Planina will be announced in May. Potential investors will apply for joint construction and sole management of a complex Jabucko Ravniste. Applicants must have a relevant experience in implementing a minimum of five investment projects worth €150 million in the last three years and the deadline for submission of letters of interest will be July 15.

Water Company on Sale

Bujanovac based producer of mineral water, soft drinks and plastic packaging Heba is also on sale. Bidders will be offered 70% of state-owned capital and the deadline for submission of bids is June 30. Potential buyers must have a track record of mineral water production of at least three years and annual turnover exceeding €20 million in 2007. If the bidder is financial investor, it must have business assets larger than €50 million, while the single investor must have income larger than €30 million. Heba is the third largest producer of mineral water in Serbia.

The company owns exclusive rights to exploit a spring in Bujanovacka spa, 5.2 ha of land and 10,791 square meters of production facilities. It turned over €10 million in 2007 and has 517 employees.

World Class Lingerie and Hosiery from Sombor

Verona based producer of lingerie and hosiery Calzedonia will invest €20m in production units in Sombor. The first unit to be built for production of women's lingerie will have 12,000 square meters and employ 400 workers. The second one will produce women's hosiery and employ additional 400 workers. The company leased 10 ha in Sombor industrial zone and received financial support from SIEPA amounting to €2,000 per employee.

A €5 Million Green House

Dutch company Green Terra will invest €5 million in the construction of a greenhouse in the Municipality of Kikinda. The construction of this 8 ha greenhouse is due to start during summer and employ 120 workers. There is an announcement of even bigger investments from Dutch Olai Rosen and Bas in an 80 ha greenhouse that will hire 1,000 workers.

New Employment in the Shoe Sector

Minister of Economy and Regional Development Mladjan Dinkic visited shoe factory Leda in Knjazevac, owned by the Italian company Falc East, and announced the employment of 400-500 new workers in its renovated units. Leda currently employs around 900 workers, turns over €15 million annually and exports the entire production to Western Europe, US and Japan.

Moeller Growing in Serbia

German concern Moeller will have a new 1,500 square meter unit built in Sremska Mitrovica industrial zone by the end of the year. This unit will be producing components and units for electrical power supply. Moeller has started production of elements for electric power supply in Sremska Mitrovica few years ago, in a rented hall, with only 15 workers. Only two years later, it has grown into a modern, high-end production hall of 3,500 square meters and 1,000 workers. Moeller's project was supported by SIEPA with €560,000.

Telekom Serbia Announcement

A step forward in the privatization of the Serbian telecom operator Telekom Srbija was made by an announcement of the tender for selection of privatization adviser for IPO of company's stocks. Interested bidder must be a respectable international investment bank or a consortium led by such, with relevant experience of running at least 2 IPOs worth more than €500 million over the past five years and at least 1 IPO worth more than €500 million in the field of telecommunications. The deadline for applications is 25 days from the day of publishing in the Serbian Official Bulletin – April 29.

Exclusive Ships Built in Serbia

Company Bomex 4M from Novi Becej has delivered the third, €1.12 million, ship for the French company CFNR. The company is producing exclusively for international customers and according to the CEO, Milenko Lepovic, they are fully booked until the end of the year.

SIEPA

Investor of the Year Award

The first annual Investor of the Year Award ceremony was organized by SIEPA under auspices of the Ministry of Economy and Regional Development. VIP Mobile, Bianca Alena and Telenor are foreign companies which were selected by an expert committee as the companies making the greatest contributions to the development of the Serbian economy over the last two years. Two additional special prizes were awarded to Elrad, for an investment in underdeveloped region, and Hemofarm, for a socially responsible investment.

"Investors in Serbia bring not only capital and new jobs to the country, but also new technologies and experience from foreign markets, being indispensable for fast economic development of Serbia," says Vesna Peric, the Director of SIEPA. "It is equally important for domestic companies to benefit from foreign investors presence, either as components suppliers or service providers."

"Serbia remains an interesting investment destination for foreign investors despite recent turbulent political development in the country. Local skills and resources still make Serbia a competitive place in the region," adds Ana Firtel, Chairwoman of Foreign Investment Council.

Regional Networking

Under auspices of ASVILOC project SIEPA is organizing, in coordination with Italian partner, business matching event for Italian, Croatian and Serbian companies. This B2B event will take place in Belgrade on 16th and 17th of June. Venue is still to be determined. Companies interested in taking part in this event are welcomed to contact SIEPA at marketing@siepa.sr.gov.yu for further information.

To meet the large demand, construction of another shipyard is underway that will increase shipbuilding capacity by 30%. Two ships for foreign buyers are in a late phase of construction, while ten ships worth about €12 million should be delivered by the end of the year.

WEG Technology

Serbian company for production and sale of household appliances,

audio and video devices - WEG Technology will start the construction of a new €2 million factory in Serbia. The facility will accompany already operating units in Turkey and China and the production is due to start in late 2008. WEG home appliances will be placed on the shelves of Metro Cash & Carry in 31 countries across Europe, Asia and Africa. The turnover of the company in 2007 amounted to €30 million.

Retail

Source: Ekonomist Magazin

The process of consolidation and new investments in the retail market continued in 2006, above all reflected in the integration of the C Market retail chain into the Delta Holding system, on one hand, and a tighter foothold of retail markets from neighboring countries, on the other. Croatia's top retailer Agrokor ended up sixth on the list of the largest retailers in Serbia in the category of operative revenue with their retail chain Idea in Serbia, already in the first full year of operation. Furthermore, Slovenia's Mercator has acquired majority ownership over local retailer Rodic.

The total revenue of top 25 companies in this sector was around €1.7 billion in 2006 and the annual growth margin was over 40 percent.

Retail remains one of the largest and fastest growing sectors in the Serbian economy. The total revenue of top 25 companies in this sector was around €1.7 billion in 2006 with an annual growth margin over 40 percent. The largest 25 retail chains also employ 20,000 people. An interesting detail is that the huge losses of the C Market retail chain, primarily caused by the restructuring process in this company (since EBITDA was mildly positive), has aggregately plunged the whole sector into loss in 2006. C Market disclosed a loss of €50 million in their end-of-year balance, exceeding the aggregate profits of all the other top 25 retail companies in the list. The retailers that made it into the Top 300 list can be divided into four basic categories: 1) food and beverages, 2) cosmetics, 3) print and publishing and 4) home appliances. The largest piece of the retail sector is taken up by food, beverages and other fast moving consumer products. Companies in this segment account for 87 percent of total revenue in the retail sector.

The top two companies in cosmetics retail disclosed profit rates above the sector average.

The market leader is a group of retail chains owned by Delta Holding that includes the companies Delta Maxi, C Market and Pekabeta. The total revenue of this group was €663 million, almost 40 percent of total revenue by top 25 retailers, with an employee count of 8,072 (40 percent) and a 27 percent revenue growth margin in 2006. The runner-up in 2006 was Mercator, present in the Serbian market directly through their outlets, as well as M Rodic, a joint enterprise with a local partner. The total revenue in 2006 was just below €200 million, accounting for 13 percent of the entire sector. Mercator employed 2,833 people with their partner in Serbia. Mercator tops the list in profitability column of our charts with a 10.4 percent EBITDA margin and 8.5 percent gross profit, while Metro Cash & Carry, Interex and Si-market are the only companies in the list with a negative EBITDA.

3 Most Important Factors When Choosing Shopping Spot

	1	2	3
Bulgaria	Product freshness and quality	Price level	Product range
Romania	Product freshness and quality	Pleasant staff	The cash register speed
Serbia	Product freshness and quality	Product range	Price level
Poland	Product freshness and quality	Price level	Visible Prices
Croatia	Product freshness and quality	Product range	Price level
Slovenia	Product freshness and quality	Price level	Product range
Czech R.	Product freshness and quality	Price level	Visible Prices

In cosmetics retail, the leading companies are Lilly drogerie and Avon with entirely different business models. Lilly is gradually expanding their retail portfolio from cosmetics and sanitary chemical products to pharmaceutical products, while Avon has maintained a leading position in catalog sales of cosmetic products. Both companies disclosed profit rates above the sector average. Two out of three companies in the segment of print and publishing made it to the top 10 within the retail sector list - Futura Plus and Stampa Sistem. The leader is Futura Plus with 1,200 retail outlets in 35 Serbian towns and almost €100 million in revenue, along with an impressive 115 percent growth margin. In terms of revenue growth, Futura Plus is behind Stampa Sistem, who posted a 119 percent growth margin and €70 million revenue.

The Factor Importance on Choosing Shopping Spots in Serbia

Scale: 1=Very Important; 5=Completely Irrelevant

Product Freshness and Quality	1.7
Product Range	1.7
Price Level	1.8
Store and its Surroundings Clean	1.8
Visible Prices	1.9
Pleasant Staff	1.9
Orentation Inside the Store	1.9
Presence of Domestic Products	2
The Cash Register Speed	2
Store Proximiti	2.1
Store Look, Atmosphere	2.1
Working Hours	2.1
Branded Products Offer	2.4
"My Store", Tradition, Habit	2.4
Additional Services (Playground, Present Wrapping)	2.6
Parking Capacity	2.6
Posibility of Cashless Transactions	2.9
Public Transportation Availability	2.9
Loyalty Programs	3.1

It should be pointed out that Futura Plus integrated their retail and wholesale segments, which means that a detailed analysis separating the share of retail and wholesale operations in the company revenue structure is needed to accurately rank the company in the retail sector.

In the home appliances segment we expect further consolidation due to development of larger shopping malls and the growing standard of living.

In the home appliances segment we expect further consolidation and growth to concur with the development of large shopping centers and malls, as well as the growth of the standard of living and purchasing power. The top achievers in this segment were Eltim, with €34 million revenue, and Roaming Electronics, with €19 million revenue. Roaming

also has the largest gross profit and EBITDA margins in the entire retail sector – 11.9 and 14.4 percent, respectively. The only retail company in the apparel and footwear segment that made it in the list is Delta Sport, with €30 million revenue and €1.8 million gross profit.

Answers to several interesting questions regarding the retail sector are going to have to wait for the 2007 results:

- Delta's position against the rest of the competition, namely Mercator, Metro, Idea, and others,
- The outcome of C Market's restructuring process,
- Growth of retail segments other than food and beverages,
- The impact of gradual changes in the structure of the retail business, namely the rising share of large shopping centers in 2008 and the return of department stores to the Serbian market.

Retail Sector											
Rank 2006	Rank 2005	Company	City	Operating revenues 2006	Operating revenues 2005	Growth of Operating revenues	Number of employees	EBITDA	EBITDA margin	EBT	EBT margin
1	2	Delta Maxi	Belgrade	30,542,415	18,771,697	62.7%	3,918	1,615,977	5.3%	1,843,033	6.0%
2	3	C Market	Belgrade	15,884,119	17,799,748	-10.8%	3,111	149,343	0.9%	-4,256,32	-26.8%
3	-	Metro Cash&Carry	Belgrade	12,357,664	6,247,852	97.8%	1,051	-34,415	-0.3%	-458,912	-3.7%
4	-	M-Rodic	Novi Sad	12,050,767	N/A	N/A	2,361	530,842	4.4%	139,438	1.2%
5	-	Futura Plus	Belgrade	8,220,599	3,768,432	118.1%	1,603	114,931	1.4%	1,652	0.0%
6	-	Univerexport	Novi Sad	7,485,239	6,409,849	16.8%	763	289,420	3.9%	320,104	4.3%
7	4	Pekabeta	Belgrade	6,840,752	4,736,661	44.4%	1,043	302,167	4.4%	-43,129	-0.6%
8	-	Idea	Belgrade	6,381,014	4,487,660	42.2%	380	68,666	1.1%	21,632	0.3%
9	7	Stampa Sistem	Belgrade	5,795,658	2,609,126	122.1%	1,672	-22,990	-0.4%	72,867	1.3%
10	5	Mercator-s	Belgrade	4,662,387	3,632,075	28.4%	472	482,925	10.4%	395,545	8.5%
11	8	Impex Promet	Nis	3,566,432	2,365,960	50.7%	446	9,433	0.3%	64,418	1.8%
12	-	Merkur International	Belgrade	3,220,293	1,158,179	178.0%	112	122,387	3.8%	150,149	4.7%
13	6	Magnetron	Novi Sad	3,040,150	2,683,356	13.3%	364	21,154	0.7%	4,476	0.1%
14	10	Lilly Drogerie	Belgrade	2,918,523	1,685,034	73.2%	461	158,816	5.4%	109,063	3.7%
15	-	Eltim	Belgrade	2,882,162	1,764,567	63.3%	292	28,997	1.0%	16,043	0.6%
16	-	Delta Sport	Belgrade	2,589,500	2,190,022	18.2%	394	175,097	6.8%	155,193	6.0%
17	-	CDE s-Interex Marketi	Belgrade	2,450,100	1,107,387	121.3%	231	-51,105	-2.1%	-34,814	-1.4%
18	9	Trgopromet	Subotica	2,251,778	2,182,679	3.2%	443	11,735	0.5%	15,966	0.7%
19	11	Trnava Promet	Donja Trnava	1,990,920	1,682,363	18.3%	187	65,519	3.3%	71,186	3.6%
20	14	Beokolp	Belgrade	1,835,043	1,493,461	22.9%	102	72,312	3.9%	22,713	1.2%
21	-	Veropulos	Belgrade	1,816,600	1,548,013	17.4%	297	104,075	5.7%	62,272	3.4%
22	17	Jezero Knic	Zunje	1,700,049	1,435,793	18.4%	127	N/A	N/A	17,729	1.0%
23	13	Si-Market	Vranje	1,687,128	1,625,655	3.8%	704	-54,147	-3.2%	-133,995	-7.9%
24	12	Avon Cosmetics SCG	Belgrade	1,626,922	1,631,624	-0.3%	52	138,022	8.5%	136,971	8.4%
25	-	Roaming Electronics	Belgrade	1,598,146	474,619	236.7%	46	229,549	14.4%	189,964	11.9%

Mr. Markus Ries

Director, Grammer System, Serbia

How did you decide to invest in Serbia?

There are several reasons why we chose Serbia for our investment among other countries in the region, but the most important ones being resources available in this area. Also, we performed a cost/performance ratio that proved to be the highest here, while a good transportation link to Germany and Czech Republic as locations central to our business was equally vital. The final reason was definitely the financial incentive by the Serbian government giving from €2,000 to 10,000 for every newly hired employee depending on the educational level. Our total investment to this point amounts to 3.8 million and we are employing over 500 people.



How would you rate the success of your company since its starting until now?

The plans made when we started our operations in Serbia have all been either successfully completed or are being delivered as scheduled. We are very satisfied how business is being done here and that is reflecting our positive results.

Since you have experience here, what will be your message to new investors?

Our experience had showed us that it is of great importance to cooperate with SIEPA, Ministry of Economy and Regional Development and local lawyers. Being in close contact with these institutions and lawyers had proved to be the most efficient way of establishing your business. They will easily provide knowledge and assistance necessary to gaining all the right licenses and even financial support. SIEPA was in a position to provide €2,000 of financial incentive for every newly employed person in the total amount of over €1 million through their Financial Incentives Program.

Did you come across any barriers during your investment process here in Serbia?

We did come across a problem that is not a real barrier, but has caused us a grievance in the beginning. We did not receive adequate information on sending software to Serbia that was blocked at the customs. When we tried to gain the necessary documentation in order to retrieve it we receive very conflicting instructions. We managed, together with Mr. Michael Schmidt from the Ministry of Economy and Regional Development, to solve it successfully and we found it to be the only holdup in the process.

Who were your partners in a search for the right location and gaining all necessary documentation?

The partners who worked with us and assisted our successful beginning are those that we recommended to other investors, namely: SIEPA, and Ministry of Economy. Also, we found lawyer's office necessary in facilitating legal support when coming to a foreign country and getting to know its laws.

What are your plans for future and do they include capacity expansions in Serbia?

We are planning to diversify our production while implementing new and improving existing processes. It will enable us to grow in Serbia, together with our employees, whilst resulting in a total growth of our company. We have organized and have additional plans to educate our employees in the sector of automotive suppliers bringing them to a higher level of knowledge and satisfaction.

How Do Buyers Choose Shopping Spots

GfK Belgrade Shopping Monitor: The two most important factors that determine a specific grocery shopping point are product freshness and quality and product assortment. Price level is the third placed factor when choosing the most favorable groceries. However, the largest amount of money is given to those that have the most cost affordable level.

The two most important factors that determine a specific grocery shopping point are product freshness and quality and product assortment.

It is a custom and the most justifiable fact that proximity of the store is usually the only factor when choosing a certain retailer. Daily shopping, random shopping and targeted shopping are done at places that are the most suitable and do not require a great effort or time.

that require more than just walking out in slippers to the nearest grocers that is right around the corner.

According to the newest information gathered by the Shopping Monitor, regular yearly studies by GfK are done on a nationally representative sample of 1,000 examinees in Serbia, the 3 most important factors influencing shopping spots are product freshness and quality, product range and prices. In addition, 70% of buyers spend the greatest amount of money in stores that fulfill exactly these parameters.

The situation is similar in the rest of Central and Eastern Europe – the most important factor when choosing stores is the product freshness and quality. However, there are certain differences between countries. The price level falls under the three most important parameters in all countries except Romania, Russia and Ukraine. The third most mentioned factor is the product range, although in Poland and Romania it is not among the top factors.

Among the least important factors when choosing retailers in Serbia are loyalty programs (coupons, etc.), possibility of cashless transactions, public transportation availability and additional services such as babysitting, free purchase bags, packing of goods, etc.

In the rest of Central and Eastern Europe the most important factor when choosing stores is the product freshness and quality.

Where do Buyers Leave the Greatest Amount of Money

The real behavior of customers is still determined by practical factors, such as price levels in certain shops. Shopping Monitor shows that although buyers find it very important for products in stores to be fresh and of high quality, as well as having a wide range of products, the main shopping point is the one where prices are the most favorable.

There are no important differences in criteria determining the main purchase point although there are differences between certain countries. The proximity between home or work and supermarkets determines the type of a store where buyers leave the large portion of their money for food. Listed by country this is how the priorities are ranked:

- Serbia, Romania and Poland – ranked first is affordable pricing, more important than store location or product range.
- Bulgaria, Russia, Ukraine, and Slovakia follow the standard where proximity is ranked first, then product range and affordable prices are to follow.
- Croatia, Czech Republic and Slovenia have also ranked location as number one, then favorable pricing and product range.

Source: GfK Belgrade



With the arrival of new, greater formats for shopping, changes of shopping habits and more frequent planned weekly or monthly shopping there are changes in expectations and requests from buyers. There are factors

It is interesting to mention that tradition/habit (Bulgaria), visible prices (Czech Republic, Poland), cleanliness (Romania, Russia), cash register speed (Romania), and pleasant staff (Ukraine) are very important parameters.

Belgrade

May 20 - 24, 2008
Eurovision – Song Contest

The Dutch orchestra Metropole Orkest and the Serbian-Dutch band Balkanopolis led by Slobodan Trkulja will open the final of this year's Eurovision Song Contest on May 24th in Belgrade. Beogradska Arena will host this year's most popular European song competition where 40 countries will be presenting their winners in over 20 languages.

May 27, 2008
Kiri Te Kanava – Opera

Sava Centar will host this world renowned lyric soprano while performing arias from operas such

as: Le Figaro, Carmen, Bohemian, Porgy and Bess, West Side Stories, and other. Ms. Kanava's sensational debut in London in 1971 marked the start of a successful career that brought her the title of a British knight and honorary doctorates at Universities of Cambridge, Oxford, Oakland, and Chicago.

June 2 – 5, 2008
EXPO 2010 Exhibition

Gala public presentation featuring works of the best Serbian architects and designers selected by an official jury will be held in the Ozone Gallery in Belgrade. 3D presentation of the first prize winner whose project will come alive at the EXPO 2010 will give a glance at the author's vision of a modern city life under the Better City, Better Life theme.

Cities Around Serbia

May 17, 2008
Night of Museums

Each year lovers of art may enjoy a free visit to numerous museums free of charge from 18.00 to 02.00 hrs in more than 20 cities in Serbia. Check your local listings of museums and galleries offering this unique opportunity once a year and take pleasure in different forms of art in one night.

The Other Home

Michele Ognissanti
Country Manager
Livolsi & Partners S.p.A.

What is your favorite destination in Serbia that you could recommend and why?

I have been working in Serbia for almost two years and since the beginning I have been very impressed by Belgrade's energy and the vitality of its citizens. There is always something going on, in any field. I usually go back home, in Milan, every month for a very short break and every time I get there I immediately realize that nothing has changed. When I come back to Belgrade, after two days only, something has changed for sure. A Serbian writer said "Belgrade does not like having its picture taken. It hates to pose. It will not keep still. It does not do well in photographs."

Hot Spots

Krofna Bar

"Take off your slippers and come have a doughnut" is the slogan of this bar. The ambient is colorful and ideal for those having a "sweet tooth". Doughnuts are made in palm oil, filled with Italian and Belgian fillings and coated with natural fruit purees. There are 27 types of sweet doughnuts and those made in American style with different fillings: white and dark chocolate, almonds, peanuts, hazelnuts, forest fruits, apple and cinnamon, Bavarian cream, and many others. Also, customers may find two types of salty doughnut treats and three specially made for those who fast. Guests may also treat themselves with coffee, juice or fruit yoghurt that matches the doughnut they are savoring in.

Address: Kursulina 6, Belgrade; Phone: (011) 344 1503; www.krofna.com



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