



### Highlights of the Month

The construction of one of the largest IT parks in Europe and the largest SIEPA project so far is about to get under way. [Read more >>>](#)

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### Industry Close Up **Wholesale Medicine**

Nine wholesale pharmaceutical companies operating in Serbia have enjoyed a 33% growth margin. [Read more >>>](#)

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### Investor Personally

**Istvan Sekula**, Director, LOHER Serbia

Reliability, knowledge and quality in electrical drive system production have resulted in five years of steady development and a factory employing 600 staff. [Read more >>>](#)

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### Monthly Reporting **OTC Market in Serbia**

Almost 90% of those questioned claim they would only buy OTC products in chemists', even if they were available in general and convenience stores. [Read more >>>](#)

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### Arts & Entertainment

Whether it's a multimedia art event, a boat carnival, or the jazz festival in Niš, this August is sure to have plenty of surprises and excitement in store. [Read more >>>](#)

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### The Other Home

**Martin Punter**,

Director, CallCentriX [Read more >>>](#)

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### Hot Spots

**Mona Hotel**, Zlatibor Mountain

Newly renovated and offering the full line of wellness center relaxation facilities with a swimming pool, hydro-massage pool, bio sauna, and Russian spa. [Read more >>>](#)

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## IT Park Construction to Start in Indjija

The construction of one of the largest IT parks in Europe and the largest SIEPA project so far is about to get under way in Indjija. The developer is the Bangalore-based Indian Embassy Group, one of the top names when it comes to IT development and business parks. The project is worth a minimum of USD 600 million and will create jobs for 25,000 highly trained people over a five year period. The group's impressive list of clients includes IBM, Microsoft, HP, Fidelity, Covansys, LG Soft, Yahoo, Google, Lenovo, Alcatel-Lucent, NVIDIA, and many more.

The deal was signed by Indjija Mayor Goran Jesic and Ramgopal Narayanan, a member of the Embassy Group's board of directors. Jesic said that work would begin in the autumn and that the complex would be ready for use by the middle of next year. According to the mayor, the municipality of Indjija had provided 50 hectares of land free of charge, while the Serbian government had pledged to establish the necessary infrastructure, as confirmed by the Serbian Telecommunications and Information Society Minister Jasna Matic, who was also in attendance.

Narayanan said that he was convinced that the Embassy Group would succeed in attracting the top international IT companies to Serbia, and that one day exports from the IT Park in Indjija would account for as much as half the country's overall export.

## New Investment Incentives Introduced

The Serbian investment environment has been further boosted by the introduction of new incentives to those already offered by SIEPA (more about financial assistance to investment projects here) via amendments to the Law on Terms and Conditions for Attracting Foreign Direct Investment. The amendments provide for state support in the form

### Automechanika

Eleven companies from Serbia will be exhibiting at the prestigious 20<sup>th</sup> Automechanika international trade fair for the automotive industry between September 18 and 21, 2008, at the trade fair in Frankfurt-am-Mein. Thanks to the Serbia Investment and Export Promotion Agency (SIEPA) and the Chamber of Commerce of Serbia, Serbian companies will be exhibiting at national booth no. B 99, situated in hall 6.3. Serbian exhibitors at Automechanika will include TPV Sumadija from Kragujevac, Potisje Precizni Liv from Ada, Autoventil from Uzice, FKL from Temerin, Prva Petoletka from Trstenik, 21 Oktobar from Kragujevac, Fritech from Prokuplje, Tigar TG from Pirot, FAS from Sombor, FADIP from Becej, and Streit Jucit from Nova Pazova.

### Natural Serbia

Serbian food companies have signed export contracts worth USD 5 million at this year's Fancy Food delicatessen food fair in New York, the Serbia Investment and Export Promotion Agency (SIEPA) has announced. At the trade fair in New York, 12 food companies from Serbia concluded over 500 contracts with potential buyers from all over the world, 70 of whom were serious, and these deals should soon result in USD 5 million worth of export.

Between June 29 and July 1, fruit, jams, pepper spread, juice, mushrooms, brandies and confectioneries were showcased at the national booth entitled Natural Serbia. Serbia was represented by Igda Impex, Foodland, ITN, ML, Jugprom and Sicoberry, Art-Ival, Rembraco, the WOW wine cellar, Marni, Arex Marcipan, and Rakia Bar.

This was the fourth time Serbian companies had taken part at Fancy Food, where 2,400 exhibitors from 70 countries presented more than 180,000 products. The presentation of Serbian companies at the national booth was organized by SIEPA and financed by the Serbian Ministry of Agriculture.

of non-refundable donations worth 25% of total investment value to projects exceeding EUR 200 million and creating 1,000 new jobs or more.

The amendments have been adopted to accelerate economic growth and reduce unemployment by attracting large Greenfield investments of special interest to Serbia in the automotive, electronics, and information and telecommunications technology industries.

## Serbia – Third Most Attractive Manufacturing Location

According to PricewaterhouseCoopers' Balancing Risk and Reward Report, Serbia is the third most attractive investment location for manufacturing.

The model took the following pre-conditions as its starting point: for manufacturing companies seeking to invest in emerging markets, low production costs are essential, followed by other factors such as a location's risk premium, its distance from key export markets (as the Model assumes 50% of production is exported), and the local corporation tax rate.

"In 2004, Serbia was ranked 25<sup>th</sup> and its rise to third place this year essentially reflects the fact that political risk – a constituent element of the country risk premium applied in the model – has more than halved over the intervening years. Another point to note is that Serbia's corporation tax is set at a low level of 10%, as compared to 15% in Bulgaria," the report states.

## Kempinski to Enter Serbian Market

The Jugoslavija Hotel is to become part of the exclusive Kempinski hotel chain which is due to take over the running of the Jugoslavija from the Alpe Adria company. Kempinski is planning to open a de luxe five-star hotel in 2011, following a complete overhaul of the existing complex. According to the preliminary design by the American architectural firm Adrian Smith Gordon Gil, the new hotel will contain 280 rooms, several restaurants, together with wellness and luxury shops. The Grand Casino will remain within the complex, and after the opening of the hotel, the next construction phase will involve the building of residential apartments.

## Jugoremedija Prepares for New Owner

The Jugoremedija pharmaceutical company from Zrenjanin and Belgrade-based Energoprojekt have signed a contract for the reconstruction of manufacturing facilities, in which the Zrenjanin-based concern will invest EUR 8.3 million.

This investment will help in the search for a strategic partner starting from next May, as well as significantly boost the auction price of the plant, in which the state owns a 41% holding.

Reconstruction will be carried out in two plants - for the production of solid and half-solid forms of medication, and primary and secondary packaging - with production to be suspended for 8 months.

## New Investment in Automotive Industry

German Reum GMBH and Slovenian Grah Automotive have signed a pre-contract agreement with the local authorities in Svilajnac

to build a car parts plant. Following the signing, Serbian Deputy Prime Minister Bozidar Djelic said that the factory in Svilajnac would be producing car parts for Audi, BMW, Mercedes and Volkswagen, and that its annual export would total EUR 50 million.

The plant, which will receive a EUR 10 million investment, will have a workforce of 300. The deputy prime minister announced that the government was also considering the possibility of constructing an industrial park in Svilajnac, as well as the construction of a bridge that would connect Svilajnac with Corridor 10, stressing that the town's revival had only just begun.

## Tiling for Success

Zlatibor Mermer from Uzice is supplying about 7,000 sqm of marble for a project at Microsoft's offices in Seattle. It is the Uzice-based company's biggest contract since it was privatized two years ago. The company was bought by Italian citizen Piero Zanela, the third generation of a family of Verona stonecutters. He bought Zlatibor Mermer's three quarries in Sirogojno, Skrzuti and Plavi Tok in Kalenic, near Pozega. The owner has thus far invested about EUR 1 million in purchasing new equipment and paying off old debts.

## The Award for Microsoft Serbia Team

At the Microsoft Worldwide Partner Conference 2008 in Houston, Serbian Software Developer - NPS won the award for the best solution in the category of business information (BI) in Central and Eastern Europe.

NPS say that their "BI4Dynamics" solution is an innovative BI solution, which allows companies of all sizes to introduce platforms for data analysis and reporting in a quick and cost efficient manner.

## Tax Reduction for More Investment

Among the incentives for boosting the economy's development, Economy Minister Mladjan Dinkic has announced a package of tax laws providing for income tax reductions of 12 to 10%, and an increase in non-taxable earnings from EUR 5,000 to EUR 8,000, expected to come into force in the autumn.

## Galenika Privatization

Economy Minister Mladjan Dinkic has announced changes to the Galenika privatization model whereby, instead of selling the company through an initial share offer, the company will be offered for sale at a tender. The reason for the change is to "collect as much money as possible for distribution among the citizens" instead of stocks in public companies. Dinkic said that the tender, where an adviser would be selected for the company's privatization, would be called in September.

## JAT to Fly Away

State Secretary for Economy and Privatization at the Serbian Economy and Regional Development Ministry Nebojsa Ciric says that the tender for the sale of Jat Airways will be called on July 31, with the deadline for submitting bids the beginning of October.

In a statement to the Beta news agency, Ciric said that investors would be able to submit offers for a minimum holding of 51% and a maximum of 70% in the Serbian national airline. The government has allowed potential buyers to decide which shares they want to buy so that companies from non-EU countries can participate as well without any international agreements being breached.

## Competition Increases

Nine wholesale pharmaceutical companies operating in Serbia have made over EUR 450 million, and have enjoyed a 33% growth margin.

For years, two companies have held a firm grip on the market—Velefarm Holding and Vetfarm. Both companies have a segmented ownership structure. Velefarm is also being floated on the stock exchange, in a move expected to generate EUR 100 million worth of capital. The two market leaders, however, are facing increasing competition from smaller private companies on the one hand, and foreign companies entering the local pharmaceutical market on the other, although the latter's share is still negligible.

Velefarm is the largest wholesale pharmaceutical company in Serbia and covers more than a third of the market. The company is in the top 20 club with revenue of EUR 175 million and EUR 21 million EBITDA. The company's growth margin was 22% in 2006, below average for this sector.

Vetfarm is traditionally the number two in this industry with revenue of EUR 57 million in 2006. Just like Velefarm, Vetfarm has been posting moderate growth margins for a sustained period of

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time, causing it to lose significant market share. This is above all due to intensifying competition

that is registering steeper growth curves year in, year out.

In the space of just two years, Pharmanova and Farmalogist have doubled their revenue from EUR 20 million in 2004 to EUR 40 million in 2006. These trends indicate that the leading duo will quickly have to adapt to the new reality on the market. Pharmaswiss, ranked fifth in the sector, is the largest foreign wholesale pharmaceutical company on the list with revenue of EUR 35 million. The company has shown its great interest in the Serbian market by building a pharmaceutical plant in Belgrade. Finally, Jugohemija has returned as a relevant market player after Delta Holding acquired the company, tripling revenue in just two years to EUR 33 million.

Roche has been operating through a local company in Serbia since 2006, and has raked in EUR 23 million, with pre-tax profits of EUR 2.2 million. The list is propped up by Srbolek with revenue of around EUR 20 million for the third consecutive year.

Source: Ekonomist Magazine

Medicaments Wholesalers 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	1	Velefarm holding	Belgrade	14,748,797	11,897,606	24.0%	731	1,773,418	12.0%	156,198	1.1%
2	2	Vetfarm	Belgrade	4,755,132	3,653,039	30.2%	224	62,261	1.3%	84,887	1.8%
3	4	Pharmanova co	Belgrade	3,381,835	2,374,404	42.4%	216	77,478	2.3%	117,369	3.5%
4	3	Farmalogist	Belgrade	3,346,157	2,390,693	40.0%	157	-19,731	-0.6%	102,355	3.1%
5	5	Pharmaswiss	Belgrade	2,899,502	1,772,123	63.6%	137	30,418	1.0%	66,393	2.3%
6	7	Jugohemija Farmacija	Belgrade	2,774,118	1,395,510	98.8%	79	65,905	2.4%	99,807	3.6%
7	-	Vetprom - hemikalije	Belgrade	2,314,300	1,606,980	44.0%	131	-56,113	-2.4%	18,931	0.8%
8	-	Roche	Belgrade	1,927,857	25,367	7.499.9%	45	176,172	9.1%	186,577	9.7%
9	6	Srbolek	Belgrade	1,842,609	1,683,775	9.4%	353	92,493	5.0%	10,189	0.6%

**Istvan Sekula,**  
Director, LOHER Serbia

Why did you decide to invest in Serbia?

Investment in the LOHER factory came about as a result of successful cooperation between Loher GmbH in Germany and the Sever factory in Subotica. Thus, the factory was established in 2003 and initially employed 12 staff.

foundation, stator windings and high and low voltage rotors, from 500 up to 2,000 kW, have been the main line of business. In February 2006, the production structure was expanded with mounting generators in wind-powered generators. The first delivery of refined parts for wind-powered generators was made in June 2003 with a consignment of six generators. Today, we deliver 80 sets a month. Statistics show that the total power generated in

For some documents the waiting process took up to a year. However, the enthusiasm and faith in the production program kept us going during this waiting process.

What are your plans for the future, and do you plan expanding your capacities in Serbia?

Today Loher employs 700 people, of whom 30% are suppliers. Production



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- Today Loher employs 700 people, of whom 30% are suppliers. From October 2008, we are expecting to take on new staff, bringing us up to a workforce of 1,073 by 2011 - 2012.



I have to point out that nearly every family in Subotica is involved in the electrical industry, going a couple of generations back. Thus, reliability, knowledge and quality in electrical drive system production have resulted in five years of steady development and a factory that now employs 600 staff. The tradition was a decisive factor for choosing to invest in Serbia, rather than Hungary or Romania.

the LES factory since its creation amounts to 10,800 MW, exceeding the power of the total number of installed power capacities in Serbia. The factory is the biggest regional exporter in Vojvodina and among the top ten in Serbia. It is also a part of the Siemens Corporation and, in terms of output in a single factory, is among the biggest generator manufacturers in the world.

is carried out in a manufacturing hall covering 13,000 sqm, and we have been renting another facility with the same capacities since May. Only last year, EUR 4.2 million was invested in equipment, new programs and production lines. From October 2008, we are expecting to take on new staff, bringing us up to a workforce of 1,073 by 2011 -2012.

How would you rate the success of your company thus far?

We are very pleased with both development and production extensions. Since the company's

Have you come across any major obstacles during the investment process in Serbia?

During the investment process there were obstacles, mainly when it came to administration.

On the basis of your own experience in Serbia, what is your message to potential investors?

Serbia offers a highly qualified workforce that is both competent and cost efficient. This certainly provides a sense of security for investors.

## OTC Market in Serbia

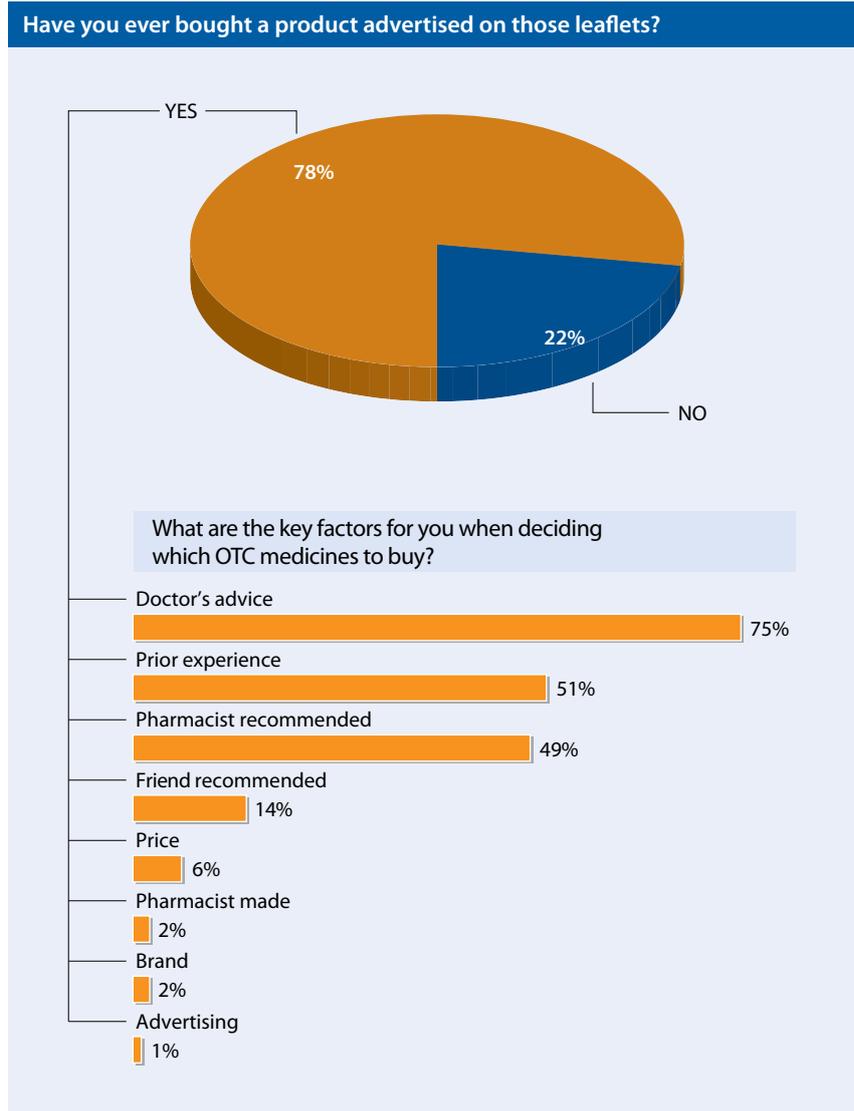
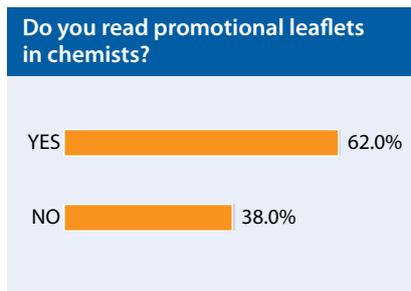
Almost 80% of Serbian citizens buy OTC medicines (over the counter medicines) on a regular basis. However, the decision to buy and the choice is predominately driven by doctors' advice.

It is interesting that, according to those interviewed, print and TV advertising have little or no influence on their choice of medications.

Other factors playing an important role in the buyer's decision, according to research, are previous experience with the medicine and advice from drugstore staff. It is interesting that, according to those interviewed, print and TV advertising have little or no influence on their choice. On the other hand, what does have a more significant impact are POS materials such as leaflets and brochures. More than a third of interviewees say they like to browse through leaflets, particularly female customers, and those between the ages of 30 and 39. The study also revealed that if a customer takes the time to read a leaflet, there is a 50% chance of them making an actual purchase.

Almost 90% of those questioned claim they would only buy OTC products in chemists, even if they were available in general and convenience stores.

One in two Serbian citizens go to the chemists at least once a month or even more. Chemists' are mostly visited by women in the 50+ category. However, people aged between 30 and 39 visit chemists' at least once a week, which is more than any other age group. Regionally speaking, people from western Serbia are



not so keen on visiting chemists' as they do so rarely - once every three months or less.

There is still more room for OTC market expansion: 40% of those who do not consider themselves to be buyers of OTC medicines, do, in the event of light medical disorders, resort to domestic medicine - tea,

soup and the like, as opposed to pharmaceuticals.

Finally, it is interesting to see that almost 90% of those questioned claim they would only buy OTC products in chemists, even if they were available in general and convenience stores.

Source: GfK



## Hot Spots

### Mona Hotel, Zlatibor Mountain

Located at the heart of Zlatibor Mountain, one of Serbia's most famous tourist destinations, this hotel features 90 accommodation units with 201 beds in the form of rooms, studios and apartments. This newly renovated venue houses 2 restaurants offering both international and domestic cuisine – Vila and Perun. There is also Bar Lada, named after the Slavic goddess of spring, love, and beauty, which offers a quiet relaxing option where guests can get away from it all, and enjoy soft drinks and cakes.

The hotel also offers a state-of-the-art wellness center where guests have at their disposal an indoor swimming pool, a hydro-massage pool, and a Finnish bio sauna offering massage treatments. The Russian spa, meanwhile, with temperatures of 5-10 degrees, gives you the opportunity to get your blood circulating and strengthen your metabolism. The congress center offers 5 individual units - a congress hall, a meeting hall, and three rooms. The congress center provides conference facilities for 200 people, or 300 when working in groups.

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## Belgrade

August 20 - 24, 2008

### Beer Fest

This promotion of beer culture with a festival twist has become a traditional mainstay, featuring performances from famous domestic and international bands, as well as other events. Every year, thousands of visitors flock to this jamboree held at Usce concert grounds. For more info: [www.belgradebeerfest.com](http://www.belgradebeerfest.com).

July 10 - August 31, 2008

### BELEF – Multimedia Art Event

This summer multimedia event is held in the open air and other alternative city venues. The theater, music and art scenes have been brought together to explore different sites and buildings throughout Belgrade, while featuring new dimensions and areas of artistic expression. For more info: [www.belef.org](http://www.belef.org).

August 30, 2008

### Belgrade Boat Carnival

This one-day summer festival, a celebration of Belgrade's beautiful rivers, is staged along the banks of the Sava and Danube, and offers a wide variety of events catering to all tastes including exhibitions, competitions on the water and ashore, river tours, a carnival boat procession, and fireworks. For more info: [www.tob.co.yu](http://www.tob.co.yu).

## Novi Sad

July 1 – August 31

### NOMUS – Classical Music Festival

In the last three years the program concept has shifted towards chamber music and its success can primarily

be attributed to the efforts of the Wanderer Trio (France), Kodaly Quartet (Hungary), Werner Hink and John Moffat (Vienna), Xavier Philips (Paris), and many others. For more info: [www.nomus.org.yu](http://www.nomus.org.yu).

## Nis

August 7 – 10, 2008

### NISVILLE – Jazz Festival

Over 250 artists from 15 countries will be performing this year at the Nis Jazz Festival. The program features classic jazz performances, as well as jazz fusion bands playing other music genres containing ethno and acid jazz. For more info: [www.nisville.com](http://www.nisville.com).

## The Other Home

**Martin Punter,**  
Director, CallCentriX

### How do you find the quality of life in Serbia?

I have been around for almost a year now and I must say I absolutely love Serbia. This actually, in addition to professional reasons, has made me decide to start my own business here. I find the quality of life here being very good and I am planning on moving to Serbia with my family. Although Belgrade will be a center of my business activities, Novi Sad is more similar to my home town in the UK and most probably our next home.

SIEPA

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