



Highlights of the Month

A new airport, production of robots, tender for the cargo center are currently one of the main business happenings in Serbia. [Read more >>>](#)



Industry Close Up **Applied Chemistry**

The top ten companies in this sector recorded combined revenue of € 500,000 in 2006, 20% up on the previous year. [Read more >>>](#)



Investor Personally

Nenad Vucinic, Director, Henkel Serbia

We are very pleased with our business in Serbia and, as a result, we've made two Greenfield investments since the initial acquisition of the Merima factory in Krusevac. [Read more >>>](#)



Monthly Reporting

Third Best Manufacturing Location Worldwide by PWC

Many international investors have exhibited confidence in the market's potential, including companies like US Steel, Fiat, Gazprom and many others. [Read more >>>](#)



Arts & Entertainment

Festivals throughout Serbia continue through the month of September. Enjoy it! [Read more >>>](#)



The Other Home

Ross Lovegrove, Designer, UK

Belgrade really touched and moved me. It is hard to explain emotions that are overwhelming. [Read more >>>](#)



Hot Spots

Informbiro Filharmonija

While enjoying the atmosphere and good drinks, guests can learn more about the Belgrade philharmonic scene, as well as buy concert and theatre tickets. [Read more >>>](#)

VoIP in Serbia

Telecommunications and Information Society Minister Jasna Matic says that the Regulation of Voice-Over-Internet Protocol Services (VoIP) should complete very soon and be in effect by the end of 2008. The full liberalization of the telecom market is expected to take place during 2009. According to Jovan Radunovic, Chairman of the Board of the Republic Telecommunications Agency, the draft Regulation would provide for operators to render VoIP services but the fixed telephone lines used would still be solely provided by Telecom Serbia. He also said that the procedure for licensing of VoIP operators will go without public tender.

Although the provision of VoIP services in Serbia has not been permitted owing to a lack of legal regulation in the field, several companies are already in that business and the prices of international calls are up to seven times lower than those offered by landline operator Telekom.

New Airport near Kraljevo

The Serbian Flight Control Agency has recently initiated design of project documentation for construction of an Airport Flight Control facility at Ladjevci, a military airport near Kraljevo, which would enable servicing of small capacity civil air traffic. In the next phase, the runway would be broadened and extended, enabling landing and take-off for large commercial aircraft. The establishment of civil air transportation would be of great importance to this part of Serbia as there are eight municipalities with a total of some 1 million citizens that could benefit from the airport in Ladjevci. Also, many tourist centers such as Mt. Kopaonik and Vrnjacka Banja would become

more accessible. According to preliminary estimates, the project would cost about € 3.5 million.

Tender for Cargo Center

The tender for selection of an operator to run the existing cargo center at Nikola Tesla Airport will be called either in September or October, says airport CEO Bojan Kristo. Kristo said that about 40% of the cargo terminal was currently in use and that six months after the new operator's arrival, a list would be compiled of new facilities that needed to be built with a view to encouraging further development and larger turnover of goods.

Regulations Guillotine in September

Economy and Regional Development Minister Mladjan Dinkic says that the Regulations Guillotine project will start in September, resulting in the elimination of one third of regulations. "All regulations that complicate procedures will be eliminated, thus enabling easier realization of investments in Serbia, primarily in the private sector," said Dinkic. He predicted that the implementation of the Guillotine should take 12 to 15 months.

Reum Investment

Representatives from the Municipality of Svilajnac and German Reum GmbH have signed a contract for the construction of a car parts factory. The factory is due to be put into operation on 1st March 2009, will employ 325 staff, and will produce plastic parts for air conditioning systems in cars for export to Germany and EU countries. Cooperation with Fiat is also in the pipeline. Reum

will invest € 10 million, while the Municipality of Svilajnac is to provide 5 ha of land with complete infrastructure in Veliko Polje.

Robots from Serbia

The foundation stone has been laid for the construction of a factory for the production and assembly of ICM Electronics robot lines in Platicevo, with production due to start by the end of 2008. The factory will cover over 1,000 square meters and be used for designing robot cells and systems for various purposes.

The foundation stone was laid by Japanese Ambassador to Serbia Tadashi Nagai, Fanuc CEO for Europe Lionel Mercou and ICM Electronics CEO Dragan Micic. Micic said that the construction of the factory would enable the company to meet the growing demand for automation and robot use in Serbia. "Our aim is to become leaders not only in Serbia, but also to compete in Europe with the intellectual skills of our efficient integration system and our engineers' latest solutions," he said.

Additional Investment from PharmaSwiss

Swiss pharmaceutical company PharmaSwiss has built a new production line for blister packaging of drugs as part of its second investment phase in secondary packaging units for drugs in ampoules and bottles. The Belgrade-based branch of the Swiss company invested € 3 million in the solid forms packaging unit in its first investment phase that ended in late 2005. Following completion of the second investment phase, capacity will increase to 25 million packets a year.

Ikarbus Goes to Russians

Russia's Avtodetal service has bought a 39.22% stake in Belgrade-based bus manufacturer Ikarbus for € 7.12 million. The Russian company has offered to invest an additional € 1.4 million in the first year, with a pension plan worth € 200 per number of years worked in the event of a staff surplus.

German Bulletin

A German economic delegation for Serbia and Montenegro and the German Federal Agency for International Business Activities have started issuing a bulletin on Serbia as a location for business activities. The German-language publication will be published monthly and will be available on the Internet.

The first issue of the bulletin contains information on the new Serbian Government and its plans for the country's economic development over the coming years, as well as relevant news on trends in the Serbian economy. It also points out that Serbia is "an interesting market for German companies". According to the bulletin, the main arguments for investing in Serbia are low taxes, low labor costs, the country's central position in South-East Europe, country's contract on economic cooperation with Russia, as well as membership of the CEFTA free trade zone.

New Office Space

Vienna Insurance Group has started the construction of business building worth €42 million and with more than 16,000 square meters in Belgrade. Major part of the space in future VIG Plaza will be used by the insurance company Wiener Stadtische, while the rest of the commercial space will be rented.

SIEPA

Expo Real

For the third time Serbia will have its national stand on one of the most important RE and investment fairs globally – Expo Real in Munich. The stand is organized by SIEPA and fair visitors will be able to meet representatives of local authorities from the City of Zrenjanin, City of Subotica, City of Leskovac, Municipality of Ada, Municipality of Soko Banja and City of Kragujevac, Belgrade Land Development Public Agency, SIEPA, Vojvodina Investment Promotion, while private sector will be represented by Yu Kapital, law office Jankovic Popovic & Mitic. The fair will take place from 6-8 October during which investors will have a chance to learn more about the investment opportunities in RE sector in Serbia. Presentations will be given by companies and municipalities. Gathering and informal atmosphere is planned for cocktail at the stand on October 7, 13:30 – 15h.

High level of automation puts the future eight-floor building in the category of intelligent buildings, with central control system managing energy efficiency and providing safe, comfortable and pleasant work space.

WAZ Becomes Owner of Stampa

German WAZ Mediengruppe has become the new owner of Belgrade-based press distribution companies Stampa sistem, Stampa press and Stampa Commerce. Following the decision of the Antimonopoly Commission, German concern, which publishes Belgrade's newspaper Politika and Novi Sad's newspaper Dnevnik appointed new management and Peter Lange became the new Executive Manager of Stampa. New Executive Manager Peter Lange called Stampa a "sleepy diva" with great development potential and announced large investments.

WAZ Media Group is present in Germany, Serbia, Austria, Hungary, Bulgaria, Romania, Croatia, Montenegro and

Macedonia. The company has over 16,000 associates and owns 18 printing firms, as well as some other media, such as radio and online services.

New Markets for Delta

Serbian company Delta will open a shopping mall in Ljubljana by 2011, while the expansion of Maxi retail network is also in the pipeline, said the CEO of Delta Real Estate, Dejan Racic.

RE project - stadium and the hall of Sports park Stozice will be finished by June 30, 2010 and that park will include shopping mall Delta Planet in which Delta will invest €242.5 million.

Racic said that Delta plans to have its facilities built at more than 3 million square meters in the region within the next four or five years, while the projected investments will amount to €3 billion. Delta plans to invest in all countries of former Yugoslavia and Albania and it negotiates about possible building locations, but, as Racic explained, there are no concrete projects yet.

Applied Chemistry

Export Oriented

The applied chemistry industry covers the production of rubber, plastics, finished chemical products and explosives. This is one of the Serbian economy's most dynamic industrial sectors with four companies in the list of top 20 exporters.

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Serbia's EU association process is inevitably having an impact on the economy, especially on the applied chemistry sector, for at least two reasons. Firstly, most products in this sector are categorized as sensitive, and the signing of the Stabilization and Association Agreement (SAA) will lead to export liberalization and the removal of customs barriers for them in the mid-term. Secondly, EU regulations require the introduction of adequate quality standards and production procedures, which could seem threatening to a company's business in the short term, but are actually an opportunity to improve the competitiveness of Serbian products.

The top ten companies in this sector recorded combined revenue of € 500,000 in 2006, 20% up on the previous year.

The leader in the applied chemistry industry is tire manufacturer Tigar, which

marketed € 130 million worth of goods in 2006, € 100 million in exports, making Tigar Serbia's third largest exporter. At the end of 2006, Tigar sealed a large export deal with the Republic of South Africa (RSA) that created the impetus for further growth in 2007. French tire manufacturer Michelin exercised its right to purchase a further 19.4% stake in Tigar from mother company Tigar AD, increasing its overall holding in the company to 64%.

There are two other rubber producers in the sector: Trayal and Rumaguma. Krusevac-based Trayal's earnings fell 22%, and despite posting € 14 million losses before depreciation, the company nevertheless ranked 16th among top Serbian exporters. Trayal was sold to Bulgarian Brikel EAD at the end of 2006.

Although Rumaguma's revenue rose 19%, its profit rate was below average for the sector. Rumaguma is Serbia's 15th largest exporter and sells the majority of its output abroad.

Tarkett from Bačka Palanka is the second largest company in this sector with € 100 million in revenue, a 33% rise in 2006 on the previous year, with a high EBITDA margin at 25%. The company is also the eighth largest exporter. In 2007, Tarkett invested € 10 million to increase its parquet production capacities.

Plastic tube producer Pestan posted 12% growth in earnings and an impressive 27% EBITDA margin. Energo-Pet, the leading producer of PET packaging in Serbia, stagnated in terms of revenue growth with € 18 million, but maintained a high profit

rate with 17% EBITDA margin.

Henkel Merima dominates the sanitary products market, and in 2006 the company's earnings grew over 20% with a fifth of products marketed abroad. Merima's owner, German Henkel, has invested around € 50 million over the last five years in order to modernize production, and expand and innovate the product range. Henkel also plans to raise the value of its investments in future.

Beohemija managed to quadruple turnover in 2006, primarily thanks to its licensing contract with local retail giant Delta M. The company put new production lines into operation in early 2006.

Protekta from Belgrade and Astrotherm from Valjevo also made it to the list in this category, with 40% and 60% growth margins respectively.

The top ten companies in this sector recorded combined revenue of € 500,000 in 2006, 20% up on the previous year.

The applied chemistry industry employed 8,000 people in 2006, 70 percent of whom worked for Tigar Tires and the Trayal Corporation, the latter reducing its workforce to 1,000 in 2007 through a safety net program. With € 12,000 per employee, Trayal has the lowest productivity in the group, earning on average € 60,000 per employee. In 2006, the entire group increased personnel numbers, with Tarkett leading the way in terms of job creation.

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	Alfa-plam	Belgrade	3,067,826	3,033,634	1.1%	986	500,903	16.3%	298,173	9.7%
2	2	Gosa FOM	Belgrade	2,315,373	2,562,549	-9.6%	1,085	82,334	3.6%	189,017	8.2%
3	6	Prvi Partizan	Belgrade	1,850,157	1,446,764	27.9%	767	120,445	6.5%	6,288	0.3%
4	4	Galeb Group	Belgrade	1,493,260	1,712,483	-12.8%	627	68,041	4.6%	243,631	16.3%
5	5	Magnohrom	Belgrade	1,329,487	1,542,359	-13.8%	2,565	-700,116	-52.7%	-791,287	-59.5%
6	3	IMT	Belgrade	1,323,868	1,907,819	-30.6%	1,417	-196,119	-14.8%	-287,081	-21.7%
7	8	Zastava Oruzje	Belgrade	1,323,589	1,087,024	21.8%	2,632	-282,547	-21.3%	-327,663	-24.8%
8	7	Milan Blagojevic	Belgrade	929,943	1,202,568	-22.7%	1,098	-15,727	-1.7%	-67,695	-7.3%

Nenad Vucinic,
Director, Henkel Serbia

Are you satisfied with your success and what is your opinion of the overall situation on the Serbian market?

We are very pleased with our business in Serbia and, as a result, we've made two Greenfield investments since the initial acquisition of the Merima factory in Krusevac.



We made the initial investment because of the company's long experience in the detergent industry. As you may know, Merima produces cosmetics now too, but not as much as in the past because of production restructuring. The main reason we focused on detergents was that the domestic market was very important, as it is today, as a result of the sharp increase in households with washing machines, which is now at the 80% mark. I have to highlight this fact when, by comparison, that figure in Romania and Bulgaria amounts to no more than 50%. The laundry washing culture and the maintenance of household hygiene are at the same level as in Western countries. There is absolutely no difference. Of course there are differences in the price that people are ready to pay as buying power here is much lower than in the West. Thus, we have created the right combination, and our brand portfolio includes products that can satisfy different needs when it comes to quality and price. We've also kept brands that were already known and loved by consumers, and not just changed them to bring them into line with Henkel's existing brands.

What is the company structure and what impact did that have on your investments here?

Henkel relies on 4 business units. The first are detergents that are the largest around the world; the second are cosmetics owing to Henkel's tradition and its acquisition of Schwarzkopf in 1995; and then we have adhesives and technology.

Henkel grew into a world leader in adhesives and in the category of consumer adhesives with the purchase of Loctite in 1996. Henkel is the world's leading supplier of chemicals for the automotive industry in the category of metal and sheet-tin cleaning chemicals. Here in Serbia, we also supply Ball Packaging and US Steel with this product.

When it comes to cosmetics, we have transferred the majority of production to Maribor as it was unsustainable to produce so many brands. Here we came to a great understanding with the workers, as a result of which we tried to steer them to other divisions in the factory.

In June 2004 we opened a factory in Krusevac for adhesives production with a capacity of 50,000 tones, which proved insufficient, so we had to open another one in Indjija in June 2007. This factory also produces adhesives and has a capacity of 100,000 tones, though we are aware that soon they will be unable to supply the market.

Did you have any major obstacles when planning to invest in Serbia?

The initial investment in Merima in 2002 came at a time when the situation was different and the privatization process was not in full swing. The Vienna management noted that Merima was in far better condition than any of the factories acquired in Central and Eastern Europe - namely, Poland, Ukraine, Slovakia, Hungary, and Russia - and they were only brought to the initial level of the factory in Serbia after primary investments. These were machines made in 1985, but back then they were cutting-edge technology, and it required additional investments to maintain certain quality standards.

When it comes to technology, this factory was already advanced. Also,

as far as employees are concerned, this was undoubtedly its biggest strength when it came to technology, processing, supply chain, warehousing, and quality control knowledge.

However, the biggest challenge was the number of employees as the factory had a workforce of 1,140 - far more than actually required. We had to invest on the one hand, but on the other provide fair compensation to those who were willing to leave and change their line of work. Thus, after one year we had 400 people that had left the company and accepted the pension plan.

When it came to the factory in Indjija, everything worked perfectly, like a Swiss watch. Thanks to assistance from municipality officials, we finished all the formalities, laid the foundation stone, and cut the ribbon in less than 10 months. The same happened with the infrastructure, water supply and electricity.

What part do bilateral and free trade agreements play in your business?

Bilateral agreements were used only in countries where Merima had developed relationships, mainly the countries of the ex-Yugoslavia - in particular, Montenegro, Macedonia and Bosnia-Herzegovina. Those were our primary markets, though that changed with the accession of Romania and Bulgaria to the EU. Consequently, our export rose from 4-5% to over 30%. Quite simply, Bulgaria and Romania are more easily supplied from here and the markets are more competitive than Vienna or Hungary. For us this is a very important factor and we can only achieve competitiveness if price, raw material procurement, and efficient production processes are in line.

What is your experience of acquiring raw materials domestically?

With advanced technologies like Henkel's, it's not necessarily possible to find all the ingredients in Serbia. There is definitely room for suppliers and for someone interested in investing in that side of the business. It is in our interests for customs duty on raw materials to be as low as possible, though they are not that high now, ranging from 1% to 10% for certain ingredients used in detergent production.

Serbia – Third Best Manufacturing Location Worldwide

For the second year running, the PricewaterhouseCoopers EM20 Risk & Reward Index explored the attractiveness of various emerging markets as investment destinations, both from risk and reward angles. The study was conducted in order to provide a degree of ‘real-world’ business credibility, so that all the locations analyzed were those that businesses would consider truly viable investment options in the course of their decision-making.

Many international investors have exhibited confidence in the market’s potential, including companies like US Steel, Fiat, Gazprom and many others.

One country that features prominently in this year’s PwC EM20 Index, in both the Manufacturing and Services Indices, is Serbia. GDP has grown by 5.5% on average since 2000, and FDI is growing as the government opens up the economy and international buyers overhaul recently privatized manufacturing facilities. One of the drivers behind Serbia’s growing potential attractiveness to foreign investors is the falling risk of investing in the country. As a result, investors are willing to accept lower returns on their capital, thus multiplying the number of potential Serbian investment opportunities. Many international investors have exhibited confidence in the market’s potential, including companies like US Steel, Fiat, Gazprom and many others. Indices

Serbia’s move up the rankings to third place this year essentially reflects the fact that it has benefited from significantly increased political stability.

Serbia has dramatically improved its performance in the Manufacturing Index largely due to improving political stability since 2000. Serbia ranks third in the Manufacturing Index for 2008, compared to 25th in 2004. This dramatic improvement in recent years has made it a significantly more attractive investment destination than before. Attractive investment locations are determined by more than just GDP per capita levels. The country’s high ranking reflects the complex interaction of a number of factors which, put together, determine the attractiveness of an emerging market for investment.

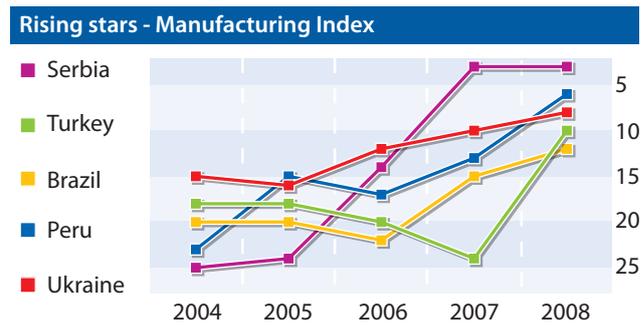
Serbia’s third-place ranking in the Manufacturing Index is testimony to the progress it has made. Serbia finished 25th in 2004, with Bulgaria top. At the time, Bulgaria was a European Union membership candidate, while Serbia was emerging from a period of conflict and economic isolation. Thus Serbia’s move up the rankings to third place this year essentially reflects the fact that it has benefited from significantly increased political stability, which has substantially reduced the country’s risk premium.

Another new feature of this year’s report are ‘Rising Stars’, as well as a couple of ‘Countries to Watch’ - locations that could be worth considering, if not immediately, then

at some point in the future. In general, the performance of countries like Serbia illustrates how quickly a country’s relative ranking can change, and the inherent challenges this brings to companies making investment decisions.

For businesses in the services sector, relatively high GDP per capita levels are a significant indicator of attractiveness. Serbia was ranked outside the Top 20 in 2004, but finished seventh in 2008. This improvement largely reflects increasing GDP per capita.

Source: GfK 



PwC EM20 Manufacturing and Services Indices				
Rank	Manufacturing		Services	
	Index Value	Country	Index Value	Country
1	95	Egypt	95	Poland
2	93	Bulgaria	95	Chile
3	88	Serbia	93	Russia
4	86	India	93	Romania
5	85	Vietnam	93	Bulgaria
6	85	Peru	91	Slovakia
7	85	Romania	89	Serbia
8	84	Ukraine	87	Brazil
9	83	Chile	87	Malaysia
10	83	Turkey	87	Turkey
11	82	Thailand	86	Mexico
12	82	Brazil	86	Kazakhstan
13	81	Malaysia	84	South Africa
14	81	China	84	Egypt
15	81	Poland	83	Thailand
16	80	Philippines	83	China
17	80	Indonesia	83	Ukraine
18	79	Russia	83	Iran
19	78	South Africa	82	Peru
20	78	Mexico	80	India

The Other Home

Ross Lovegrove,
Designer, UK

Belgrade really touched and moved me. It is hard to explain emotions that are overwhelming. Your need to connect with people, sacrifice and dedicate yourself to an idea. You need to look people in the eyes, and the internal beauty that I have found here is so sincere and real. There are only a few places like that on Earth. Please invite me again!

Belgrade

16th– 28th September 2008
42nd BITEF 08 – Theatre Festival

Founded in 1967, Bitef has continually followed and supported the latest theatre trends, thus becoming one of Europe's biggest and most important

festivals. Transcending all political and cultural borders, Bitef has, over the course of four decades, managed to keep pace with the tumultuous evolutions in the performing arts. Thus, one can equate the history of Bitef with the history of contemporary theatre.

16th-19th September 2008
Belgrade of Light – Festival

Belgrade is finally to have its own Festival of Light. This year, the focus is on the Transnational Lighting Detectives (TLD) symposium. The main topic will be "Lighting Identity of the City", with presentations of Beijing, New York, Copenhagen, Berlin, Tokyo, and Singapore. These will be followed by workshops with students from Belgrade, Stockholm and Tokyo, and the festival will culminate with a lecture by one of the world's best known light designers and the founder of the TLD group, Mr Kaoru Mende.

7th-8th September 2008
Jelen Pivo Live Music Festival

The Kalemegdan fortress in Belgrade will host the second Jelen Pivo LIVE festival, offering a two-day quality schedule to delight all true rock 'n' roll fans. Local and regional rock 'n' roll stars will be accompanied by international headliners such as Iggy Pop and the Stooges and Dinosaur Jr.

Negotin

12th-16th September 2008
Classical Music Festival
Days of Mokranjac

Stevan Stojanović Mokranjac was a Serbian composer born in Negotin in 1856. He founded the first Serbian music school in 1899 in Belgrade. The traditional Days of Mokranjac festival takes place in Negotin every September in the composer's honor.

Smederevo

27th-28th September 2008
Autumn in Smederevo
Wine Inspired Event

An event devoted to grape picking and wine-making. The famous Smederevo Fortress in the heart of the city itself is the setting for a procession of costumed and mounted medieval knights, flanked by exotically attired court ladies, and accompanied by grape-pickers and cultural and entertainment activities.

Hot Spots

Informbiro Filharmonija

This cafe-bar is situated inside the Belgrade Philharmonic building. While enjoying the atmosphere and good drinks, guests can find out all they want to know about the Belgrade philharmonic scene, as well as buy concert and theatre tickets. The elegant, predominantly beige interior catches the eye, as does the elongated bar. A special touch is the ceiling inscribed with the names of all 1,200+ people that ever worked at the Belgrade Philharmonic. The garden, though situated in the city centre, is very private, quiet and full of greenery. The bar inside the garden is 13 meters long and can seat 80 guests. In addition to a standard drinks menu, the bar offers a selection of over 150 wines, cocktails, smoked hams, cheeses, and desserts.

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