



Highlights of the Month

FIAT to start making two new models in Serbia from 2010. [Read more >>>](#)



Meet SIEPA

In October our experts will be in Brussels, Dubai, Paris, Munich and more. [Read more >>>](#)



Sector Close Up **Construction Materials**

Six companies from this sector made earnings over €250 million, 25% more than in 2005. [Read more >>>](#)



Investor Personally

Mr. Giovanni Fantoni, Director, Fantoni Italy

In the past few years Serbia has increased its GDP 6 - 7% per year, while the wood and furniture industry growth has been growing slightly above that level. [Read more >>>](#)



Monthly Reporting

Technology and Their Impact on Everyday's Life

Internet access is also on a rise and in 2008 almost 40% of households said they have technical capabilities to use worldwide web. [Read more >>>](#)



Arts & Entertainment

Music festivities are marking this month with Alicia Keys concert, classical music concerts and a jazz festival. [Read more >>>](#)



The Other Home

Rowland Palairet, Scotland, UK

The city oozes history, ancient and modern alike. [Read more >>>](#)



Hot Spots

Plava Ruza, Apatin

Situated at a Danube bank not far from the city bay and sports stadium, the restaurant offers specialties of different international cuisines. [Read more >>>](#)

Fiat Expansion

Fiat Group Automobiles (FGA) and the Government of the Republic of Serbia have signed an agreement for the formation of a joint-venture pursuant to the Memorandum of Understanding (MoU) signed in April 2008. The agreement was signed by Sergio Marchionne, CEO of Fiat Group and Fiat Group Automobiles, and Mladjan Dinkic, Serbian Deputy Prime Minister and Minister of Economy and Regional Development, in the presence of the President of the Republic of Serbia, Boris Tadic, the Prime Minister, Mirko Cvetkovic, and the Italian Minister of Foreign Affairs, Franco Frattini.

The joint-venture, 67 per cent owned by FGA and 33 per cent by the Government of the Republic of Serbia, acquires the assets of the Zastava plant at Kragujevac, which is located 140 km South-East of Belgrade. With a capacity to produce about 200,000 cars yearly, at steady state by the end of 2010, and a potential addition of 100,000 cars, the plant will form part of FGA's global manufacturing footprint and will benefit from Fiat's production standards. The joint-venture would carry an initial investment of about €700 million, including a support of more than €200 million by the Serbian Government, encompassing a cash contribution of 100 million euros, a share-holder's loan of €50 million, and a variety of other incentives. An additional wide-ranging support to the initiative will be provided by the City of Kragujevac.

Sergio Marchionne and Mladjan Dinkic also signed a MoU as the basis for a potential cooperation between Iveco and Magneti Marelli and the Government of the Republic of Serbia in the production of buses, special vehicles, and automotive components. The MoU foresees the establishment of two new joint-venture companies, which would be owned 70 % by Iveco and Magneti Marelli, respectively and 30 % by the Serbian Government. If successful, these discussions will lead to the signing of definitive agreements in the course of the coming months.

Telekom Srbija IPO

Morgan Stanley has been selected as Telekom Srbija's privatization adviser having submitted the most attractive bid. Morgan Stanley asked for 1.35% of the total value of the transaction to prepare the IPO for stocks in Telekom, together with a fixed fee of €250,000. In return, it is tasked with proposing a strategy for the company's partial privatisation by the end of the year.

Pumping Up Development

Danish Grundfos, the world's largest pump manufacturer, will invest around €80 million in a new factory near Belgrade. "We are experiencing extensive growth in Central and Eastern Europe and this is the reason why we are now opening up another factory. Serbia is interesting as it has a good location in relation to our growth markets, including Russia, besides which the country is going through positive political and economic development. Serious talks are under way for the country to be accorded EU candidate status as early as 2009," said Knud Krægpøth, senior vice-president responsible for international production in the Grundfos Group. Grundfos has purchased 15 hectares of land in the town of Indija 42 kilometres north of Belgrade. Construction of a new factory housing 350 or 500 production personnel will start on this site in 2009.

Asus Opens a Regional Center in Belgrade

Asus Technology opened a regional office in Serbia at the beginning of July. The office will cover the markets of seven countries – Slovenia, Croatia, Bosnia-Herzegovina, Montenegro, Serbia, Macedonia and Albania. Asus Technology is among the world's top five manufacturers of "notebook" computers and LCD monitors. Last year the company supplied 55 million motherboards, meaning that one in every three PC computers assembled in 2007 was equipped with an Asus motherboard.

Happy Anniversary: US Steel

Marking the fifth anniversary of its successful operations in Serbia, US Steel Serbia has announced a \$100 million investment in a new production line for zinc-coating. The production line will require 50 new personnel and a further 225 for building the unit. The company will also invest over \$50 million in environmental protection projects over the next two years. US Steel Serbia has units in Smederevo, Sabac and Kucevo employing a total of 6,000 workers. It has also been Serbia's largest exporter for several years running.

Two Austrian Investments in Sight

Austrian company Supernova intends to construct a 100,000 square meter shopping centre in Novi Sad, costing about €100 million, an investment that would create about 1,000 new jobs, as announced by Supernova representative Dusan Dobrijevic.

Yet another Austrian investment is on the cards. Reports suggest that Magna Schteier is planning to build a factory for the production of car parts in Kragujevac. Kragujevac Mayor Veroljub Stevanovic confirmed the news, saying that it was now only a matter of both sides agreeing on the details. Trade Attache at the Austrian Embassy in Belgrade Andreas Haidenthaler also announced the planned arrival of the Sharp retail chain on the Serbian market.

Meet SIEPA

October 6-8, 2008

Expo Real, Munich, Germany

October 13-14,

2008 TPO Awards,
The Hague, Netherlands

October 19-23, 2008

SIAL, Paris, France

October 19-23, 2008

GITEX 08, Dubai, UAE

Parliament Hard at Work

The Serbian parliament adopted the Law on Ratification of the Stabilization and Association Agreement (SAA) with the EU on September 9, which defines the terms for free exchange of goods, workers and capital, as well as cooperation in a series of fields – from harmonization of laws to political dialogue and financial cooperation. Parliament also adopted the Interim Trade Agreement with the EU, together with the Law on Ratification of the Inter-Governmental Agreement between the Governments of Serbia and the Russian Federation on Cooperation in the Oil and Gas Sector. The energy agreement with Russia envisages the construction of a section of the South Stream gas pipeline through Serbia, the sale of a 51% stake in the Serbian Oil Industry and completion of a gas reservoir in

Banatski Dvor. However, parliament has yet to ratify a protocol on the sale of a majority stake in NIS, including a price of €400 million and €500 million worth of investments until 2012. The protocol envisages the signing of the sales-and-purchase contract by the end of the year, whereby Gazprom's daughter company, Gazpromneft, would have the right to operational management in NIS, while the government would guarantee protection of NIS's oil derivative market for at least two years.

A World Class Factory

Icelandic Actavis is to relocate production of 900 million pills from two production units in Malta and Iceland to its factory in Leskovac, says Actavis CEO Sigurdur Oli Olafson, during his first visit to the company's

Zdravlje subsidiary in Leskovac. The move will more than double production at Zdravlje, bought by Actavis in 2003, and will accelerate the acquisition of certificates enabling the export of drugs from the completely reconstructed units in Leskovac to demanding European markets by the end of 2008.

With a total of 22 factories, Actavis is present on over 40 markets, which will now be open to the drugs from Leskovac. The management's plan for the next few years includes increasing export from the current level of 16% to 75%. "I am impressed with what has been done at Zdravlje. It is now a world-class factory," says Olafson. The investment of over €30 million has paid off. We've got modern units with a capacity of over 2 billion pills, and we can now count on this factory as a big supplier to the European market.

SIEPA

Automechanika

SIEPA has successfully wrapped up its participation at one of the most important events in the international automotive industry calendar – Automechanika. During the five days of the fair, 11 companies from Serbia presented their broad range of products: TPV Sumadija, Autoventil, FADIP-HKC, Tigar, Streit Jucit, Fritech, IPM, PPT Hidraulika, Potisje Investment Castings, FKL, 21. Oktobar, and FAS. The Serbian national stand was officially opened on September 17 by the Serbian Minister of Trade and Services Slobodan Milosavljevic. The minister expressed special gratitude to SIEPA, the Serbian Chamber of Commerce and USAID's project for competition development for all their support and for enabling the participation of Serbian companies at this event. The fair was deemed to be very successful. Several hundred meetings were held, 30 of them being very prosperous and likely to result in trade agreements. The companies met with representatives

of the PSA Group and Volkswagen. PSA representatives Frederic Mot and Patrik Guino said the Group already had three suppliers from Serbia and they were very satisfied. They added that the Group viewed Serbia as a reliable partner with a long tradition in the automotive industry.

Serbian Fashion Industry in Moscow

Five Serbian companies – Passage, Ivkovic, Tribeca, Kooi Knit and Tiffany – made an impressive appearance at the Collection Premiere Moscow (CPM) fashion fair. Participation at the fair, which ran from September 10 to 13, was organized by SIEPA with support from USAID.

Ivkovic alone signed four contracts worth a total of €80,000 in direct sales, while the companies made contacts with more than 60 buyers altogether. Russian media and local TV stations showed a great interest in the Serbian national stand, stating that Serbia was continuously working on building its own brand in the fashion industry with modern creations. New brands and young designers are gradually making their mark outside Serbia. The fashion industry, as well as

the entire country, is going through a considerable transformation. More and more fashion houses are creating their own brands, and in order to fully exploit the Russian market's potential, Serbia has to make contacts with reliable distributors, which it managed to do at the CPM fair.

Mission NYC

SIEPA Deputy Director Bojan Jankovic has accompanied Serbian Deputy Prime Minister and Economy and Regional Development Minister Mladjan Dinkic to a series of meetings and investment conferences in the US. The Serbian delegation took part at a global investment conference held at the Harvard Club in New York, where Dinkic presented incentives offered by the Serbian Government for investments in the automotive, electronic and ICT industries. As a direct result of contacts with the General Electric management, the company's representatives announced a visit to Serbia in mid-October to look into the possibility of setting up a locomotive factory in Serbia and joining the project to electrify the Serbian railway system.

Construction Materials

Dynamic Growth

The construction materials industry experienced dynamic growth in 2006. Six companies had a combined earnings of over €250 million, 25 % up on 2005. To a large extent this sector's growth was driven by a nationwide boom in construction and housing projects.



The six companies can be divided into two groups: cement producers, occupying the top three positions in the sector, and ceramic and brick producers in the bottom half. All three cement factories in Serbia are under foreign ownership, and are in the top flight of the domestic economy in terms of EBITDA margin profitability, which, for the second year in a row, is hovering around the 30% mark in all three cases, ranking them 10th to 12th in this category.

With average 32% EBITDA margin in the sector overall, only the telecommunications industry was more profitable in 2006 with a 45% EBITDA margin. The three cement

factories also had high earnings per employee, from €86,000 per employee at Holcim to €101,000 at Lafarge.

Lafarge has invested more than €60 million in the five years since it acquired the Beočin cement factory, and, as result, has a strong foothold in the market as the leading producer of cement in Serbia with an annual output of over 1.1 million tonnes, covering almost half of market demand. The cement factory pulled in €82 million in revenue, registering a €20 million pre-tax profit in 2006.

Six companies from this sector made earnings over €250 million, 25% more than in 2005.

Holcim has also splashed out €90mn in investments in the five years since acquiring the cement factory in Novi Popovac, currently accounting for one third of cement production in Serbia.

Cement producers earned almost €180 million in 2006, a 23 % year-on-year improvement. The future promises even further growth in this area, as per-capita cement consumption in Serbia is still lagging behind other countries in the region.

All three cement factories in Serbia are in foreign ownership and are in the top flight of the Serbian economy in terms of profitability displayed through the EBITDA margin.

The three leading producers of ceramics and brick material – Toza Markovic, Potisje and Polet – have retained their firm grip on the market. Polet is the most improved company in the construction materials industry with almost 50% year-on-year growth margin in 2006, way ahead of Toza Markovic and Potisje at around 15% each. These three companies got nowhere near the astounding EBITDA margin of the cement producers, but still notched an impressive 13% average.

Foreign companies dominate the ownership structure in this segment – Potisje is part of the Austrian Tondach Group, while Polet is owned by the Croatian Nexa Group.

Source: Ekonomist Magazin

Construction Materials 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	Lafarge BFC	Beocin	6,892,607	5,452,659	26.4%	811	2,116,660	30.7%	1,741,445	25.3%
2	2	Holcim	Popovac	4,968,828	3,701,638	34.2%	692	1,595,200	32.1%	892,626	18.0%
3	3	Cementara Kosjeric	Kosjeric	3,165,960	2,844,966	11.3%	383	1,022,111	32.3%	636,220	20.1%
4	4	Toza Markovic	Kikinda	2,375,950	2,053,859	15.7%	1,264	167,892	7.1%	27,635	1.2%
5	5	Potisje Kanjiza	Kanjiza	2,062,585	1,790,650	15.2%	642	227,509	11.0%	-38,616	-1.9%
6	6	Polet	Novi Becej	1,724,382	1,160,138	48.6%	537	360,828	20.9%	525,041	30.4%



Mr. Giovanni Fantoni
Director, Fantoni Italy

Why did you choose to invest in Serbia?

Our decision to invest in Spik Iverica from Ivanjica came along with the idea to increase our turnover and further develop our company. We have always known that the Balkan region has great potential for development, due to our previous business experience in Slovenia and the interest and assistance offered by the Serbian Privatisation Agency.

In the past few years Serbia has increased its Gross Domestic Product (GDP) by 6-7% per year, while the wood and furniture industry has been growing slightly above that level.

These opportunities have permitted us to believe that Serbia is the right place to invest, with great perspectives for the future, especially if Serbia becomes part of the European Economic Community.

How would you rate your success in Serbia thus far?

The company that we privatised needed extensive structural repairs. This has taken a lot of time and effort, but we are bringing these changes to an end sooner than we anticipated. At present, we're producing raw and melamine-faced chip board panels that supply 30-40% of total Serbian market needs, which is very gratifying.

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

The advice we would give to those who intend to invest in foreign countries is to take Serbia into serious consideration and to examine the prospects of their investment in terms of time.

If your business plans are long-term, we recommend Serbia as a country that can bring a lot of positive results and satisfaction.

What are your thoughts on the wood and furniture industry in Serbia?

In the last 10 to 15 years the wood industry in Europe has developed rapidly, both in terms of technology and quality, especially in the area of production processes. Serbia has not thus far had the possibility to develop new technologies, but our investment will surely fill the present technological gap. This will bring new opportunities for professional growth to our employees. At present we produce raw and melamine-faced chip board panels that supply 30 - 40% of the total Serbian market needs

Have you had any major obstacles when planning to invest in Serbia?

Surprisingly, the biggest difficulty was the one that initially seemed to be an opportunity. What I mean is the price of raw materials.

Unfortunately, the majority of the wood market is controlled by national agencies that do not provide any services, not even the transport of goods to their clients.

This is why we had to invest in some extra equipment. The price of wood in Serbia is higher than in many other countries in Europe, and the agencies that manage and control this resource, in our opinion, are making a mistake by increasing the prices excessively, instead of improving production and increasing competitiveness.

Who were your major partners when looking for an investment location, acquiring permits and the necessary documentation?

In taking advantage of this investment opportunity, we were helped by Mr. Bojan Stanisavljević from the ITA-Invest group. As regards the contract itself and the whole project, it was taken care of directly by our company.

What are your plans for the future? Have you thought about expanding your activities and production capacity in Serbia?

Our goal is to double the production volume of melamine chip boards in order to reach 150,000 square metres by 2010, which is 60% of the Serbian market. I am sure that all our employees and partners will exhibit maximum commitment and enthusiasm with a view to continuing our success.



Technology and its Impact on Everyday Life

Ownership of the item that appears to be the most important to both youngsters and the working population – the PC – has shown a sharp increase compared to research conducted in 2007: 53.5% as opposed to 37.7%. 7.1% of households own a notebook computer (2.7% increase). Internet access is also on the rise, and in 2008 almost 40% of households said they had the technical capacities to access the worldwide web. Only in 2005, this figure was around 15%. Printers, although not an essential part of the PC set-up, can be found in 24.2% of households. All in all, the research shows that Serbian people's interest in computers, computer-related equipment and the Internet is rising rapidly. Saturation level has yet to be hit, and there is still substantial market potential.

Internet access is on a rise and in 2008 almost 40% of households said they have technical capabilities to use worldwide web. Only in 2005, this figure was around 15%.

The level of TV ownership has remained stable for a number of years, standing at 98.7%. Somewhat outdated technology like VCRs are owned by 32.8%, while close to 60% of households own more modern equipment like DVD players. Slowly but surely, new technology is squeezing out the old.

Satellite dish ownership as part of home entertainment is undergoing a revival. 13.5% of homes own one now, a 2% rise on 2005. This year, things look a bit better for satellite equipment (9.2%), even though cable TV is still unbeatable with 47.6% market penetration and rising steadily.

Recording memorable moments has always been popular here, and the fact that recording equipment is becoming ever more affordable is reflected in the level of its use. 11% of respondent had a video camera, while 33.9% had a digital camera. Ownership of analogue cameras is gradually sliding (2005: 52%; 2008: 38.2%) and modern technology is replacing the old.

The percentage of CD players is almost unchanged compared to 2007 at 36.9%, which can be explained by the fact that DVD players can also be used for playing music. Use of walkmans, portable MP3 players and discmans is also rising, standing at 19.2%.

Somewhat outdated equipment such as VCR is owned by 32.8%, and the new modern one such as DVD player close to 60% of households.

When it comes to home appliances, market penetration is on a moderate, but steady, rise. 94.5% of households have a washing machine, refrigerators can be found in almost every house, while deep freezers can be found in 96.1% of households. Serbian people's love of cooking is evidenced by the fact that only 1.4% of respondents do not own a cooker, although only 14.3% households have a dishwasher. Microwave ovens are rising stars in the kitchen, enjoying a 27% rise of market penetration against 2007, now standing at 28.5%.

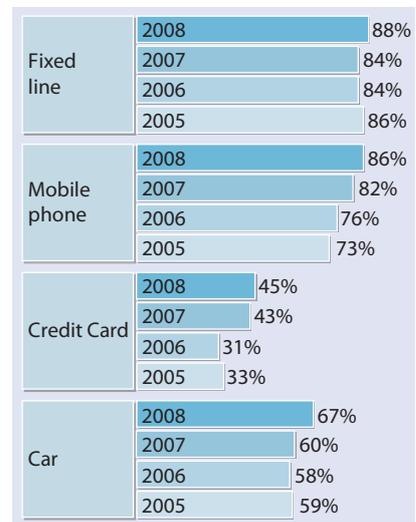
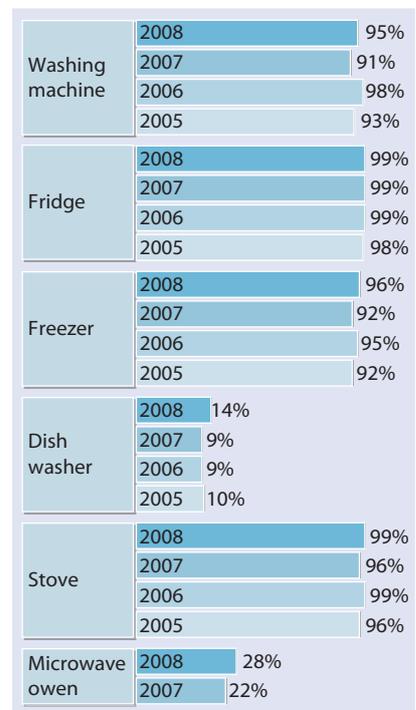
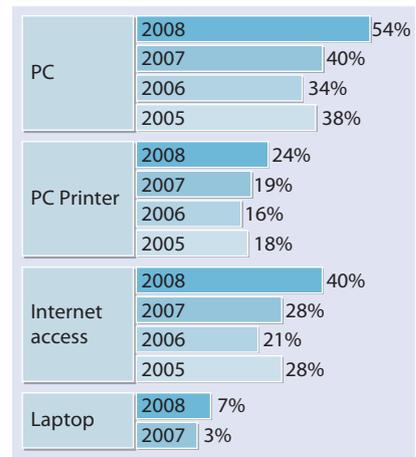
Mobile telephone ownership (86.2%) has almost equalled landline ownership (88.2%). Almost half the population of Serbia, 45.2%, uses their "flexible friend" to pay phone bills, as well as other goods, services and commodities.

Finally, penetration of the item that most significantly improves our lives – the car – has also been bullish. The last three years have witnessed an increase in the number of households owning a car - 58.6% in 2005 to today's figure of 66.6%.

As for dependance on modern technology, the way and the extent to which we rely on it to make our lives easier can be observed by a mere inspection of our homes. Ownership of various appliances and the thought of what life would look like without them gives a pretty good answer to the question. The above numbers and figures for the Serbian population are based on an Omnibus survey of GfK conducted in June 2008 of a representative sample of 1,000 people aged 15+.

Source: GfK Belgrade 

Ownership of Technological Power Tools



Belgrade

October 11, 2008 Alicia Keys – RnB Concert

She has won 10 Grammys and is back on the road again with her third album "As I Am". This renowned singer/songwriter and actress will be performing at the Belgrade Arena.

October 3-17, 2008 BEMUS 08 – Music Festivities

The Belgrade Music Festival will be taking place for the 40th time, and will showcase the work of domestic composers and musicians. Other highlights include the French quartet Eben, violinist David Garrett, the I Virtuosi Pagannini and Poem Amoric ensembles, the Jacques Loussier Trio, ballet by Boris Eifman, the Budapest festival orchestra and many more. The majority of performances will be held at the Sava Centar and in Kolarac, but for the complete schedule please go to www.bemus.co.yu.

October 24-29, 2008 Belgrade Jazz Festival

Dee Dee Bridgewater, Brad Mehldau and the Ravi Coltrane Group are just some of the world famous names that will be playing at this year's Festival. Visitors will also be able to enjoy listening to an array of superb domestic artists, headed by Vasil

Hot Spots

Plava Ruza, Apatin

Situated on the banks of the Danube, not far from the town bay and sports stadium, this restaurant offers a wide range of cuisine from all round the world, with the emphasis on Italian, Indonesian and Chinese specialties. Beach bars are perched on the cascade terrace and are open from 8am until midnight, while the restaurant is open from midday until midnight. The restaurant offers a children's menu consisting of meals going by the names of "I Don't Like That", "I Can't" and "I Don't Want to Eat That". There is an abundant wine list, featuring domestic, Macedonian, Chilean, Argentinean, and other selected wines.

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Hadzimanov. Pozoriste na Terazijama, Dom Sindikata, Kolarac, and the Sava Centre will be hosting the event that is sure to reclaim its past glory this year!

Dimitrovgrad

October 15-November 10, 2008 Balkan Theatre Fest

An international festival featuring professional and amateur theatres.

A whole host of theatres from Macedonia, Bulgaria and Serbia perform their latest plays at the Hristo Botev theatre every year. During the festival the audience has a chance to see and enjoy plays featuring a multitude of famous actors and directors from home and abroad.

The Other Home

Rowland Palairt, Scotland, UK

What is your recommendation for visitors to see when in Serbia?

Although not without its faults, Belgrade should be an integral part of any visit to Serbia. The city oozes history, ancient and modern alike. Any visit should begin with a stroll around the Kalemegdan fortress, preferably in summertime, before taking in the shopping precinct of Knez Mihajlova Street. Outside the capital, I'd recommend a trip to western Serbia, to the Sumadija region. The countryside is breathtaking, reminiscent of my own country Scotland, while you're sure to receive a warm welcome from the locals. If you happen to be there in August, the Guca festival is well worth a visit. I'm no great fan of brass band music, but that's no obstacle – the atmosphere alone makes it an unforgettable experience.

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