



### Highlights of the Month

Serbia and Russia signed the gas agreement. [Read more >>>](#)

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### Meet SIEPA

See you in Berlin. Twice. [Read more >>>](#)

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### Sector Close Up

#### Retail sector

Operating revenues of the 23 leading companies grew by 42 % in comparison to 2006. [Read more >>>](#)

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### Investor Personally

**Ms. Vesna Peric**, SIEPA Director sums up the year behind. [Read more >>>](#)

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### Monthly Reporting

#### Will The Crisis Affect Serbia?

Citizens of Serbia share the opinion of people in the EU countries and anticipate that global crisis will last for several years. [Read more >>>](#)

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### Arts & Entertainment

Directors Jim Jarmusch and Oliver Stone, as well as the actor Alen Delon, are the guests of this year's film and music festival Kustendorf in Drvengrad, Mecavnik. [Read more >>>](#)

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### The Other Home

**Mr. David Webb**, Senior Partner, Webb Dowse  
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### Hot Spots

#### Atelier, Novi Sad

A restaurant with the most beautiful view on the Petrovaradin fortress, the most recognisable motif of Novi Sad. [Read more >>>](#)

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## Serbia-Russia Gas Agreement Signed

Serbia and Russia have signed the agreement on the sale of 51% of the Serbian oil industry NIS and agreements on the construction of the South Stream gas pipe line and the gas storage facility in Banatski Dvor. The agreements were signed in Moscow on December 24, 2008 together with a presidential statement by the Serbian and Russian Presidents, Boris Tadic and Dmitry Medvedev guaranteeing the implementation of the agreements at the state level.

On the occasion of the signing, Medvedev said that agreements on economic cooperation are very important for both countries and that they provide grounds for future cooperation between Russia and Serbia. "Energy cooperation laid the foundation for ensuring energetic stability in Serbia, as well as in the whole region", he underlined.

## Trade Agreement Stalled

Prime Minister of Serbia Mirko Cvetkovic announced that unilateral application of Trade agreement with European Union has not started as of January, 1, as previously planned, because the Law on Customs Tariff failed to be adopted in due time by the national assembly.

## Trade with Russia

Trade between Serbia and Russia reached around \$3.5 billion in the first 10 months of 2008, which is 46% more than in the same period last year. Thus, Russia remains Serbia's first import partner and 5th in terms of export.

## A Fair for Sale

On December 26, 2008, Privatization Agency of Serbia has announced the tender for sale of 70% of Belgrade Fair's capital. As it was announced on the

Agency's website [www.priv.rs](http://www.priv.rs), the right on participation on the tender have all companies which have organized at least 25 exhibitions annually, over the last three years, and which have made a profit of at least €50 million, in 2007. Belgrade Fair's capital was estimated at €20.5 million euros, it occupies a total of 22 hectares, owns 106,241 square meters of exhibition space 53,221 square meters. The company has earned €15.32 million of profit in 2007, while the profit grew on average 14.2% annually over the period from 2003 to 2007. Tender documentation is available for purchase until February 27, while the deadline for submission of offers is March 27.

Italian Rimini Fiera and Reed Exhibitions have already expressed their interest to take part at the tender during 2008.

## Meet Us

16<sup>th</sup> – 25<sup>th</sup> January, 2009

**Green Week,**  
Berlin, Germany  
Hall 18, Stand No. 127

4<sup>th</sup> – 6<sup>th</sup> February, 2009

**Fruit Logistica,**  
Berlin, Germany  
Hall 6.2, Stand No. C-13 and  
Hall 21, Stand

29<sup>th</sup> January, 2009

**International conference:  
Produrre locale ed agire  
globale per nuove vie di  
sviluppo**  
Ancona, Italy.

## Strategic Takeover

French company for market research Ipsos took over 60% of Serbian company Strategic Marketing, including all research agencies within Strategic Puls Group which cover the markets of

Serbia, Croatia, Slovenia, Bosnia and Herzegovina, Macedonia, Montenegro, and Albania.

Ipsos is one of the largest companies in the world for marketing research, media and public opinion research, with an income of almost €1 billion and with activities in 55 countries.

## Galenika Privatization

On December 10, Privatization Agency of Serbia announced that four bids came in for the adviser in the process of privatization of pharmaceutical company Galenika.

Two bids were submitted by UniCredit CAIB from Austria and French Societe Generale, and the other two by the companies gathered around French banks Rothschild and BNP Paribas. Following the analysis of applications, the Commission for Public Procurements will make the shortlist of candidates who will be invited to submit bids in the second phase of restrictive public procurement procedure.

## Investment in Subotica

Subotica based railway wagon factory Bratstvo has a new owner; Slovakian company Tatravagonka, also involved in manufacture of wagons. After financial consolidation of factory, it is expected that Tatravagonka will relocate a part of its production to Subotica's factory.

## New Investment Site Available

The Mayor of Jagodina, Dragan Markovic stated that Jagodina will offer 200ha of construction land for industrial purposes at the starting price of 23 new jobs for one hectare. The local management will prepare all the necessary infrastructure and help investors to build their companies as soon as possible, said Markovic. Tender for this land located on Corridor 10, will be published in February.

## New Hotel in Belgrade - Soon

The owner of Belgrade-based In Hotel Hristoforos Petris has announced the plans for development of tourist complex in Belgrade that will start at the beginning of year 2009. This 10,000 square meter complex will include a five-star hotel, congress centre, sports and spa center. Petris recently announced the ownership of a company for agriculture and horse breeding Zobnatica and plans to "unite" future complex in Belgrade with Hotel In and motel that is part of Zobnatica into a hotel chain.

## New Skiing Site

Famous film director Emir Kusturica has opened a skiing complex on the highest peak of Mt. Tara - Iver, just 8 km away from his famous ethno village Mecavnik. The complex encompasses a hotel, 4 "black category" ski lanes for experienced skiers, one of them being equipped with the machines for artificial snow.

## VoIP

The first licenses for providing VoIP services in Serbia are issued based on the regulations for liberalization of internet market and market of telecommunication. Eight companies are now officially entitled to provide such service which is a first step towards complete liberalization of fixed telephony market planned for 2009. Moreover, Internet providers are now in a position to freely establish its own links with international networks meaning liberalization of Internet market and improvement of the quality and lowering of Internet prices in Serbia.

## Just Do It in Serbia

Serbian company Delta Sport has been declared, once again, the best distributor of products of company Nike for the territory of EMEA. The territory of EMEA includes 67 countries of Southeast Europe, the Baltics, Africa

SIEPA

### SIEPA Exporter of the Year Award

For fifth consecutive year SIEPA has presented its annual awards to the greatest achievers among Serbian export oriented companies. Exporter of the Year 2008 award went to Ball Packaging Europe, while the same award in the category of small and mid-sized enterprises was granted to two companies - Termometal and Radijator Inzenjering. In addition to winning Techno Naiss Group SIEPA Award for Best New Export Product, Group's CT scanner helped this company become the world's third largest manufacturer of scanners for ORL diagnostics, while frozen fruit producer Marni won over the award jury with the successful breakthrough on the US market.

The awards were presented by the Prime Minister of Serbia, Mirko Cvetkovic, the Minister of Economy and Regional Development, Mladjan Dinkic, the Minister of Telecommunications and IT Society, Jasna Matic, and the CEO of SIEPA, Vesna Peric, while the Director General of DHL, Darko Babic, handed DHL's awards. In addition to fame, Techno Naiss Group, Termometal, Radijator Inzenjering and Marni were granted €30,000 in transportation and freight-forwarding services from the official Award sponsor - DHL International Beograd.

### Seventh Business Roundtable with the Government of Serbia

Serbia is moving closer to the European mainstream in a time of unprecedented business complexity and Economist Conferences' Seventh Business Roundtable with the Government of Serbia (March 18, 2009, Hyatt Regency Belgrade) is a unique opportunity to debate country's future with its political and business leaders. Be there to learn how political and business leaders are navigating these uncharted waters, and what their actions and priorities will mean for decision makers in business. Meet and debate with government leaders including Prime Minister Mirko Cvetkovic, Deputy Prime Minister for European Integration and Minister of Science and Technological Development Bozidar Djelic, Deputy Prime Minister and Minister of Economy and Regional Development Mladjan Dinkic, and Minister of Finance Diana Dragutinovic. Update your strategy for Serbia with the very best business intelligence, analysis and dialogue in a highly productive, expert-moderated setting.

[For more information, click here.](#)

and the Near East. Delta Sport is the only distributor of Nike products that won this prestigious award two times. Nike also declared Delta Sport the distributor of the year in 2006. The award for the best distributor in 2008 was granted at the celebration in Miami, USA.

## World Hotel Congress

Serbia will be hosting the World Congress of International Hotel and

Restaurant Association in October in Belgrade. This was confirmed at the Congress in Mexican City of Monterey. This was announced by the State Secretary for tourism Mr. Goran Petkovic, who anticipates participation of the most important people in the world tourism, hotel and restaurant management. "Belgrade will host people who will be deciding about investments, marketing and tourist trends and that is a great opportunity for Serbia", estimated Petkovic.

## Retail Sector

Operating revenues of the 23 leading companies grew by 42 % in comparison to 2006, i.e. they increased from €1.7 billion to €2.4 billion. The retail sector continued its rapid growth in 2007, which was confirmed by both statistical data and financial indicators of the biggest enterprises from this branch.

The very high growth of retail trade represents a combined effect of an increase in retail prices, an increase in retail facilities, as well as growth in individual consumption of the general public and enterprises. The degree of retail activity concentration continued in 2007 as well, which was proven by the growth of shares of total revenue of the 23 leading companies in combined retail trade (23 % in 2006, i.e. 24 % in 2007). Trade in food products and consumer goods in small stores and huge hypermarkets naturally had a dominant share in the combined retail trade of 23 companies (86 %), as well as trade in tobacco products (10 %).

In 2007 operating revenues of companies dealing with retail activities in Serbia amounted to €10.1 billion, which is a growth of about 38 % in comparison to the previous year.

The total number of employees in these companies recorded growth of about 4,800 workers, i.e. 23 % compared to the previous year. The retail chain Delta Maxi, together with related companies C Market and Pekabeta, posted the highest combined revenues of about €840 million, which is a 33 % increase over last year. Furthermore, Delta (together with the said related companies) recorded the highest absolute EBITDA of €38 million. It should be taken into consideration that during 2007 this retail trade company also appeared in the regional market through the acquisition of one of the biggest Bulgarian retail chains Piccadilly, as well as through the opening of retail facilities in Bosnia and

Herzegovina. Mercator, with combined (Mercator S and M Rodic) revenues of €338 million, is the second biggest retail trader in Serbia. Trade growth in 2007 amounted to about 70 %, which is the result of the ownership merger of Mercator and the former trading company Rodic. The third biggest retail trader is Metro Cash & Carry, with recorded operating revenues of almost €200 million, which is a 34.5 % growth over last year, while the fourth on the list is the Croatian company Idea Extra, a member of Agrokor, which during 2007 doubled its operating revenues in comparison to 2006.

Operating revenues of the 23 leading retail trade companies grew by 42 % compared to 2006, i.e. they increased from €1.7 billion to €2.4 billion.

Futura Plus, a company specializing in the retail trade of tobacco and newspapers, in 2007 recorded operating revenues of €153 million, which is an increase of 56 % in comparison to 2006. At the same time, the enterprise posted a negative EBITDA of -€2.4 million. The leader in the retail trade of sports equipment is Delta Sport, with scored operating revenues of €81 million and an EBITDA of €9.1 million. Delta Sport reached an EBITDA margin of 11.2 %, which is one of the highest margins among the observed companies.

The retail chain Lilly Drogerije strengthened its leading position in the segment of trade in chemical products, and it doubled its operating revenues in 2007. Likewise, the scored return on the equity rate (32 %) was the highest in the ground and considerably higher than the group's average (7.4 %). One of the biggest distributors of tobacco products and newspapers, Beokolp recorded the highest profitability measured by return on equity rate in 2007 – 61 %. The operating results in 2007 reflect a continuation of the growth trend in retail market size, the concentration degree and strengthening of the dominant market position of certain companies, as well as an increase in the trade of certain groups of products.

Retail Sector							
Rank	Company	Operating revenues 2007	Operating revenues 2006	Growth of Operating revenues	Number of employees	EBITDA 2007	EBITDA margin 2007
1	Delta Maxi	44,918,261	30,542,415	47.1%	4,715	1,863,193	4.1%
2	M-Rodic	21,159,087	12,050,767	75.6%	2,333	632,105	3.0%
3	Metro Cash & Carry	15,788,987	12,357,664	27.8%	1,096	398,458	2.5%
4	C Market	15,127,540	15,884,119	-4.8%	2,834	851,869	5.6
5	Idea	12,261,016	6,381,014	92.1%	1,035	-329,792	-2.7%
6	Futura Plus	12,225,858	8,240,450	48.4%	3,437	-195,507	-1.6%
7	Univerexport	10,648,716	9,753,252	9.2%	1,421	278,067	2.6%
8	Pekabeta	7,236,394	6,840,752	5.8%	1,029	356,287	4.9%
9	Deltasport	6,487,942	3,862,677	68.0%	849	729,555	9.7%
10	SL Gross	6,142,948	5,460,429	12.5%	677	-154,692	-2.5%
11	Mercator-S	5,861,308	4,662,387	25.7%	730	688,095	11.7%
12	Stampa-sistem	5,499,684	5,795,658	-5.1%	1,628	89,025	1.6%

**Ms. Vesna Peric**  
Director, SIEPA

**What are your impressions about the year 2008 in terms of foreign investment in Serbia?**

The latest statistics show that inward FDI reached \$2.9 billion by end September. In the first half of the year, we had over 80% of foreign investment inflow, then Q3 saw an expected slowdown, which was extended to the October-December period. Hence, total FDI by year end is likely to be close to the 2007 level—around \$3.5 billion. Having in mind that a number of large-scale privatization transactions were cancelled earlier in the year, I can say that this is a strong result for the country.

In 2007 and 2008, we observed a sharp surge in the number of Greenfield projects

Last year was highlighted by the deal made with FIAT. The total JV investment with the state as a partner amounts to €700 million, while another €240 million is expected through the projects of the truck maker IVECO and the FIAT's supplier Magneti Marelli. In its Kragujevac facility, FIAT will be producing two brand new models, with the capacity of 300,000 cars annually. Some estimations are that this project will create nearly 10,000 new jobs and bring in approximately €1 billion of export revenues every year. Based on all these figures, FIAT's investment deserves to be denoted as ground-breaking for Serbia. We firmly believe that it marks a turning point in our endeavors to attract world-class companies in hi-tech sectors and give a strong boost to Serbian exports.

**In recent years, Serbia lacked manufacturing Greenfield projects. Was this the case in the last year?**

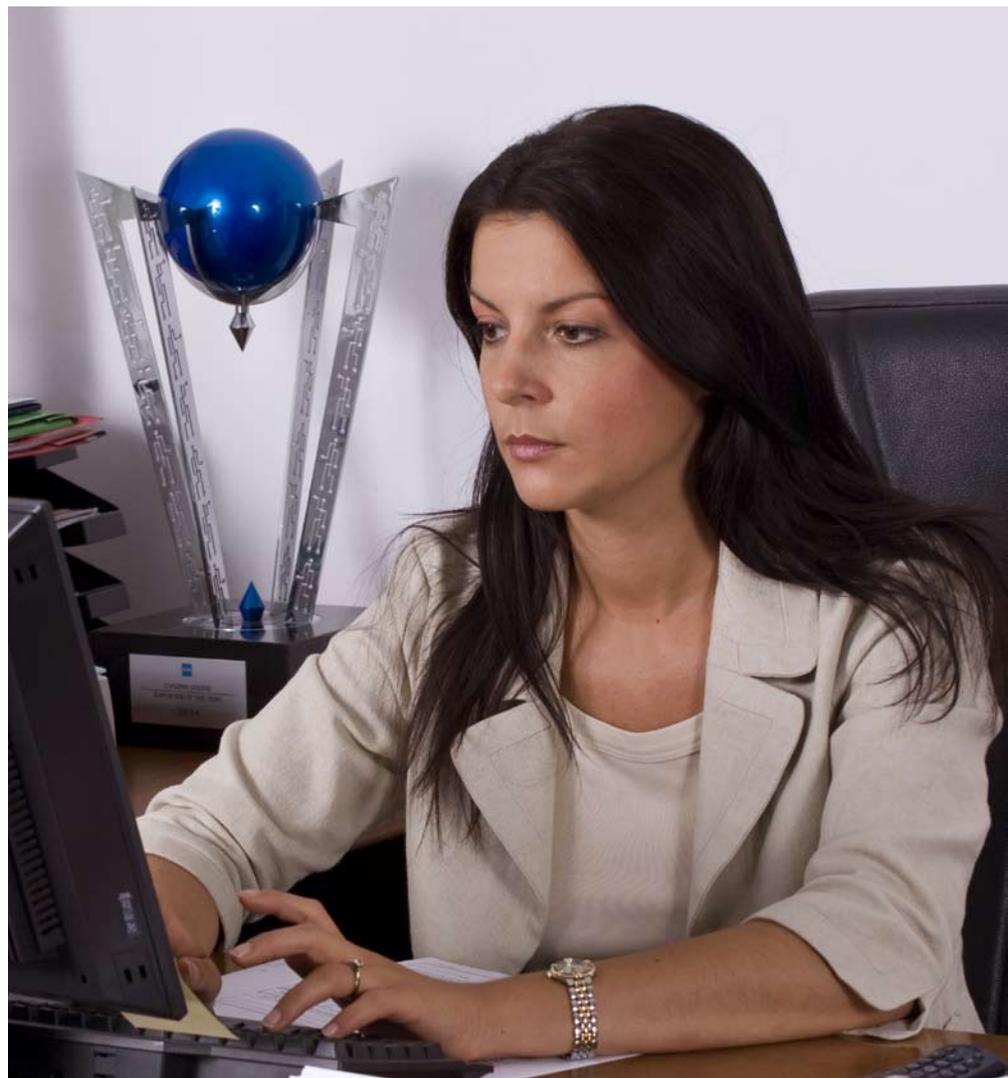
This is true, but in 2007 and 2008, we observed a sharp surge in the number

of Greenfield projects. Unlike in the early stage of Serbia's transition, international companies tend to invest more in manufacturing sectors, such as automotive components, chemical industry or textile production. Moreover, in 2007, Serbia took the 2<sup>nd</sup> spot in South East Europe, next to Romania, by the number of Greenfield projects. Two years ago, our country hosted 63 such ventures, and in the past year, Serbia's performance was close to that one. In connection with that, the global consultancy Ernst & Young has identified this region as the Europe's top destination for manufacturing investment by a wide margin. According to their poll, our strengths lie in low labor costs, flexibility of labor legislation, and productivity gains. On top of this, Serbia offers tremendous

market potential, strategic geographic position, and favorable financial and tax incentives.

**Are these investment benefits marketed in a right manner? What action needs to be taken to revamp the image of the country?**

There is a common notion among our clients that the actual improvements in Serbia's business climate are not translated well into the country's image. This is largely due to the lack of good news on Serbia in the most influential international media. On the other hand, their editors are naturally more inclined to reporting "breaking news" stories on the most pressing political issues. As a result, most target



investors are either biased against the possibility of doing business in Serbia or barely informed on the economic developments in our market. However, once they are introduced to Serbia's investment opportunities through direct communication channels, their attitudes tend to shift towards highly positive perceptions.

Given this widespread practice, our image building strategy needs to revolve around direct marketing tools. Speaking about SIEPA actions, we cannot afford to place advertisements in the world's leading business magazines

A series of reform actions have already been launched by the new Government.

or run costly marketing campaigns. Hence, the focus of our promo actions will be put on marketing the country on a face-to-face basis, chiefly through investment conferences, road shows and events alike. Over the last few years, we have increased our presence internationally and are determined to step up such promotional efforts.

#### **In light of the current global economic crisis, what is Serbia's FDI outlook for the coming year?**

The next year's net FDI target is set at roughly €3 billion, based on GDP growth rate and current account deficit projections. If it wasn't for the crisis, this target would be hit almost solely by privatization receipts. These include tender and auction sales of remaining socially-owned firms, but, more importantly, privatization of large, state companies. At the moment, it seems that we can count on the FIAT's investment, as well as on the sales of Serbia's oil industry NIS, pharmaceutical maker Galenika, mining complex RTB Bor, and a number of other small-scale deals. In total, their value is expected to exceed €1 billion. Also, we cannot rule out large acquisitions, such as those recently made by Heineken and PepsiCo, even though they are not likely to occur before



western economies are out of recession. Lastly, we are going to see implementation of previously announced Greenfield projects, with some of them in the range of as much as €50-100 million.

Nevertheless, next year is going to be extremely challenging for Serbia. Due to the forecast decline in privatization proceeds, we will have to win much more Greenfield and other non-privatization projects to secure a steady inflow of foreign capital. And in order to bring in more such ventures, we obviously need to urgently address major concerns of the local business community. To this end, a series of reform actions have already been launched by the new Government. For example, a new project named The Guillotine of Regulations aims to simplify our legal framework by repealing some 30% of non-essential business regulations. In addition, state administration requires further modernization through the introduction of e-government, integration of customs services, and other reform measures. Parallel to these actions, land and construction legislation is to be amended towards cutting down the time and costs for investors to obtain building permits. One of the Government's top priorities also includes upgrading of transport and ICT infrastructure, with the total investment plan amounting to as much as €4 billion for the next four years.

#### **What will be the SIEPA's response to the aggravated market circumstances?**

As I have already pointed out, we are going to act more proactively, to get closer to potential investors, and to communicate our marketing message directly. From our experience, I can testify that such an approach pays off eventually. At the end of the day, it has helped us bring world-class companies, such as Indian Embassy Group, Danish Grundfos or German Reum, to name but a few our key clients over the past year.

We are certainly aware that regional competition for FDI is getting fierce, so the Government has introduced an enhanced package of financial incentives. Additional €20 million will be available within our investment grant program, providing non-refundable funds of €2,000 to €10,000 per new job created. Apart from that, the state is now in a position to subsidize large investors with up to 25% of their total investment value, provided it exceeds €200 million with the minimum of 1,000 job posts. This scheme is applied to the automotive, electronics, and IT industry, and—in a somewhat different form—it has already produced results, helping us strike the deal with FIAT.

### Will Global Financial Crisis Affect Serbia?

People in Serbia shared their personal views of the impact of the crisis on Serbia and 58% of the respondents were positive that the impact will be negative. In this respect, citizens of Serbia share the opinions of people in the EU countries and anticipate that crisis will last for several years, as opposed to more optimistic citizens of other SEE countries which expect the crisis to last 1-2 years.

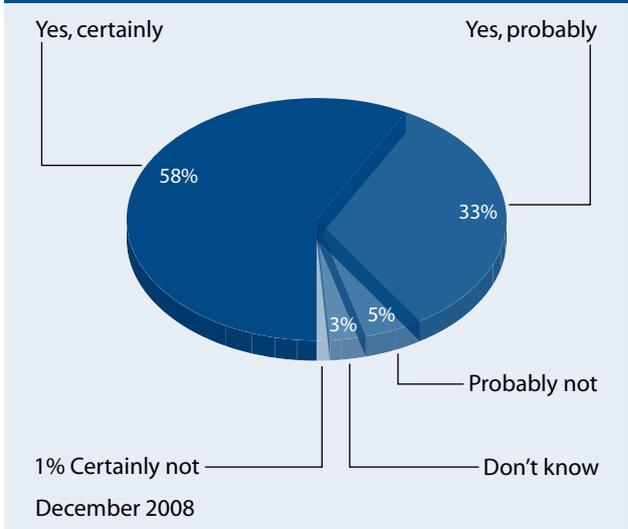
When asked about personal prospects and the outlook for personal savings, prognoses are not so bright, either. 25% of the respondents expect the enlargement of their wealth in 2009, while the rest feel certain lack of optimism, with least optimism found in western Serbia. For the first time, people in rural environments are able to save money, which was a privilege of the big city people. However, these savings will be used primarily for basic supplies, such as foodstuff. People living in Western Serbia are the greatest pessimists about the trends of the retail prices for the next 12 months, expecting them to rise further. The greatest optimists seem to live in Vojvodina.

Research was undertaken by GfK in December 2008 by the way of personal interviews. The representative sample included 1,000 respondents from the entire territory of the Republic of Serbia.

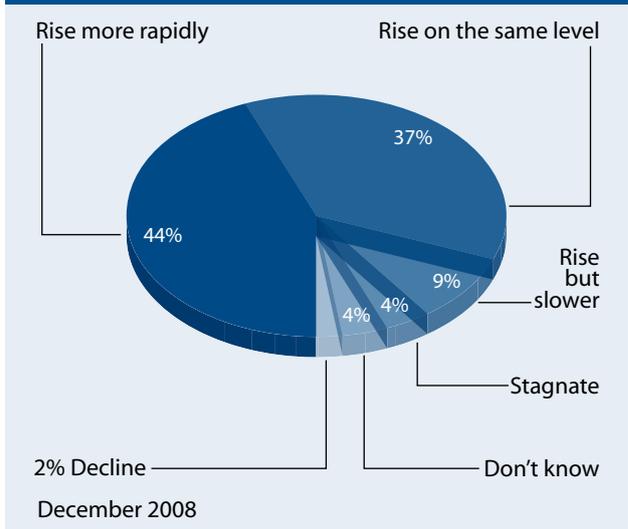
Source: GfK Belgrade 



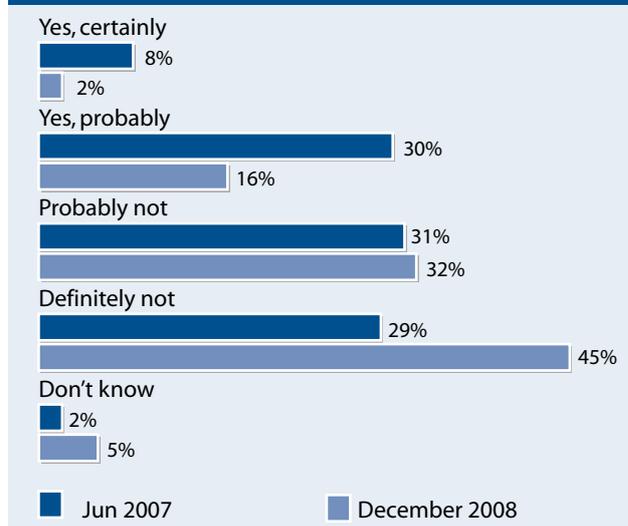
#### In your opinion, will the global financial crisis affect Serbia?



#### Compared to 2008, what trend will the prices follow in 2009?



#### Will you be able to save money in next 12 months?



**Belgrade****January 31, 2008  
George Dalaras – Concert**

Since the 1970s, George Dalaras has recorded more than 120 records. He has sung numerous different Greek music styles (e.g. rebetiko, laikó, Latin, pop), Israeli and Arabic music, and religious music and collaborated with many contemporary Greek composers. He will be playing in Sava Centar at the end of January. Enjoy it! For more info got to [www.savacentar.com](http://www.savacentar.com).

**December 17 – January 17, 2009  
Vladimir Velickovic – Exhibition**

This prominent Serbian painter who was honored with the highest French recognition in the field of culture and art, Commandeur dans l'ordre des Arts et des Lettres will be showcasing its painting and sculptures in the Arte gallery, Takovska 20. For more info go to [www.arte.rs](http://www.arte.rs).

**The Other Home**

**Mr. David Webb,**  
Senior Partner, Webb Dowse

**What is your favourite season in Serbia?**

Serbia's bitter mid-winters are more to be endured than enjoyed, while to those of us from Northern climes the intense heat and humidity of high summer can become enervating. Spring, on the other hand, is glorious. Serbian culture is based around the outdoors and with the return of the sunshine Belgrade blossoms as cafes put their tables outside, the city's vibrant nightlife increasingly focuses on the floating restaurants and bars moored along its two great rivers and the many open areas become public spaces to play sport, meet friends and just relax over a drink. Anyone making a first visit to Belgrade in May will probably never leave.

**Hot Spots****Restaurant Atelier (Atelje), Novi Sad**

The restaurant has the most beautiful view on the Petrovaradin fortress, the most recognisable motif of Novi Sad. The name of this restaurant comes from the inspiration of every guest to feeling like a painter as a result of wide palette of vines combined with international cuisine. The Atelier organizes theme nights – fish, days of Argentinean and Italian cuisine. It can accommodate up to 90 people, but during summertime additional 80 in the open garden.

Address: Kej zrtava racije 2, Novi Sad

**January 8 -14, 2009  
Kustendorf - Film and Music Festival**

Directors Jim Jarmusch and Oliver Stone, as well as the actor Alen Delon, will be the guests of this year's film and music festival "Kustendorf" in Drvengrad, Mecavnik. Competition program includes students' work from Film Academies of the US, Great Britain, Chile, Venezuela, Argentina, Peru, Mexico, Egypt, Germany, Slovakia, Czech Republic, Russia, Poland, Italy, Serbia and many other countries.

**January, 25-29, 2009  
Magnificent 7 - European Festival of Feature Length Film**

The festival will take place for the fifth time, showing the pearls of the novel film production. The festival opens by a movie Blind Love from a young Slovak artist Jurij Lohotsky, which had

its premiere at the Cannes Festival and showing a touching story of the blind people who, in spite of all, put love at the first place. One of the exclusivities is a Serbian premiere of a film Vesterbru, from the young Mikael Nor which bravely leaves the camera to the lead actress to capture interesting, dramatic and provocative moments of her relationship. Venue – Belgrade's Sava Center

SIEPA

**Serbia Investment and  
Export Promotion Agency**

Vlajkovicева St. 3/V  
11000 Belgrade, Serbia

tel: +381 11 3398 550  
fax: +381 11 3398 814

office@siepa.sr.gov.yu  
www.siepa.sr.gov.yu