



## Current Issues

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## Industry Close Up Automotive Components Industry

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## Investor Personally

### **Mr. Damir Firšt**

Chairman of the Board of Directors, METRO Cash & Carry

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## Monthly Reporting Types of Buyers in Central and Eastern Europe

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## Arts & Entertainment

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## The Other Home

### **Mirko Bernuzzi**

Director of Pompea Serbia

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## Hot Spots Relax Plato

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## Inflation Lower Than Projected

The Governor of the National Bank of Serbia, Mr. Radovan Jelasic, estimated that the total inflation in Serbia in the first quarter of 2007 will be lower than 5%, while the basic inflation will be less than 4%. He reminded that the projected basic inflation was between 4 and 8%. Jelasic also said that the inflation would be somewhat bigger in April due to seasonal increase in prices of early fruit and vegetables, as well increase in prices of oil derivatives.

## First Come – First Served

Construction of a Mercator hypermarket in Kragujevac on the surface of 20,000 square meters, should commence in August and is due to be finished in March next year.

Although the original plan was to open the hypermarket in 2009, the management of this Slovenian retail chain estimated that the construction should be accelerated because the designated parcel has become interesting to other investors in the meantime.

## Ikarbus Exports to Russia

Belgrade-based bus factory Ikarbus has started assembling 50 mini-buses to be exported to the Russian market. The total value of the job for Russian partner Rusicar amounts to about €3 mil.

Company Ikarbus was founded in 1923 as the first airplane factory in the Balkans. The first bus in this factory was produced in 1954. It employs about 720 workers and its annual production capacity is 1,000 vehicles.

## Telekom Srbija Set for Launch in Montenegro

Consortium of Telekom Srbija and Dutch company Ogular has settled all obligations for the license of the third mobile telephony operator on the territory of Montenegro. The consortium will operate in Montenegro as a telecommunication company MTEL, which will soon

SIEPA

### €600,000 Project of SIEPA and MIGA

Serbia Investment and Export Promotion Agency (SIEPA) and an EU funded project delivered by the Multilateral Investment Guarantee Agency (MIGA), under the name of Serbia Investment Promotion Program (SIPP), are implementing a project - Serbian Supplier Development Program (SSDP) worth €600,000. The aim of the project is developing competitive local suppliers able to meet the supply requirements of multinational corporations (MNCs) in the region.

By enhancing their management and production skills, the program will help local companies to obtain more and higher value-added contracts from multinationals and become part of global value chains. The new world-class local supplier base would also help to retain existing inward investors as well as attract new ones. Increased local sourcing by foreign-owned corporations is, together with job creation, one of the most tangible effects of Foreign Direct Investment (FDI). It is also a major channel for the transfer of knowledge, technology and skills that FDI brings into the host economy. These positive effects are particularly important for countries in transition like Serbia, which is still defining the priority of FDI promotion amongst the other development policies it is pursuing.

The pilot version of the SSDP should be designed to provide targeted technical assistance to approximately 30 selected local enterprises and the completion is expected in June 2008.

offer its services of GSM and UMTS network to the citizens of Montenegro, as well as services of landline telephony Internet, based on WiMax technology.

## The Largest Privatization Deal in CEE

PricewaterhouseCoopers announced that the acquisition of the Serbian company Mobi 63 by Norwegian Telnor for about \$1.9 billion is the largest privatization transaction in Central and East Europe in 2006. In addition, out of 490 privatization transactions in Central and East Europe, 210 transactions took place in Serbia.

## Declaration on Long-term Energy Stability

The heads of the countries of South East Europe have signed the Declaration on long-term energy stability at the summit in Ohrid. It has been pointed out in the final Declaration on long-term energy stability that the functional and competitive regional energy market will be

created and that the investments in that sector and solidarity will be stimulated. According to the Declaration adopted by the presidents of Serbia, Montenegro, Albania, Croatia, Macedonia, Bulgaria and Bosnia and Herzegovina, the constant and diverse energy supply is necessary for economy development and social stability of the countries in this region.

## Happy Anniversary to HP

Hewlett-Packard celebrated the fifth year of operating in Serbia. Slobodan Radic, General Manager of HP, pointed out that the turnover in that period has been increased 2.5 times and that it reached the amount of \$60 million in 2006.

The growth has been registered in all segments of business, mostly in the field of services (by 550%), while the rise by 500% has been registered in the segment of personal computers. The turnover in the group for graphics and printing increased by 70% - Radic emphasizes and adds that the significant growth in the field of services is a result of the development of domestic IT market and the fact that 80% of companies depend on that.

## Future Biotec To Build a Factory in Zrenjanin, Another One Possibly in Sabac

Representatives of the city authorities of Zrenjanin and company Future Biotec have signed a contract on building a factory for production of synthetic diesel in industrial zone Ecka near Zrenjanin. The factory will be built under a €50 million investment and should be completed in seven months time.

Another similar factory is possible to be opened in Sabac. Representatives of the Texas company Pax have contacted the representatives of Municipality of Sabac, announcing possible investment into bio-diesel production, with total of 100-120,000 tons as a planned volume of the production. It has been estimated that the factory would be profitable if oilseed rape was planted on at least 30,000 ha in the region.

## Memorandum on Construction of the Black Sea Highway

Ministers of country members of the Black Sea Economic Collaboration (BSEC) have signed the Memorandum on joining the construction of the Black Sea highway on April 19 in Belgrade.

The highway should connect all countries in the region and be a corridor connecting North, West, East and Southeast of Europe. Serbia and the members of BSEC should sign a memorandum on transportation benefits, development of the Black Sea navigable ways and collaboration of diplomatic academies.

## Holiday Inn in New Belgrade

The four star hotel Holiday Inn Beograd will be opened on September 1st. The value of the investment is estimated at €25 million. The investors and Holiday Inn hotel group plan to have several hotels built in the capital and around Serbia within the next few years.

The hotel will have six floors and 140 rooms, two of which will be intended for disabled persons, while

others are single and double rooms. The sizes of the rooms will range between 26 and 80 square meters. The hotel will follow Holiday Inn standards that will be fully effective starting from year 2010. The hotel is intended for businessmen and it will have contents suitable for such clients. New hotel will have seven conferences and banquet halls, which will be named after Serbian monasteries.

## Somboled Has a New Owner

Company Lactalis from France, one of the largest dairy groups in the world, has become the owner of more than 91% of stocks of Croatian company Dukat and also became the owner of Sombor-based Somboled.

The agreement implies obligation of the French company to keep the current number of employees in Dukat and related companies, as well as a further development of operations and primary milk production. This transaction is worth €279 million.

## Meet Us

May 22 - 25, 2007

Expo Italia Real Estate,  
Milan, Italy

May 23 - 25, 2007

Real Vienna,  
Vienna, Austria

May 29, 2007

Investment Forum in Korea,  
Seoul, Korea

## Green Light for Oil Pipeline Konstanza-Pancevo-Trieste

The ministerial Declaration on Construction of Pan-European Oil Pipeline Konstanza-Pancevo-Trieste worth about \$2 billion was signed on April 3 in Zagreb. The Declaration was signed by the Ministers of Energy of Serbia, Romania, Croatia, Slovenia and Italy and European Commissar for Energy Andris Piebalgs.

Starting from 2011, the Pan-European oil pipeline will be used to transport oil from the Caspian and Uralian area to European market. One of the signers, the Minister of Mining and Energy of Serbia, Radomir Naumov, stated at the press conference that the signing of that document was not only important segment for final realization of the project, but also the new stimulant to the process of integration of the entire region into the European Union.

## The First International Conference: Business Powered by Women

The first international conference: Business powered by Woman will be organized in Master Center, Novi Sad, on June 7-9, 2007. Women from Serbia, Croatia, Bosnia & Herzegovina, Albania, Bulgaria, Romania, Macedonia, Montenegro and Germany have been invited to the conference to talk about their successful lives and businesses, thus motivating and empowering competent women in an ever-changing business environment, to enhance and develop their existing businesses and start up new ones.

By holding workshops and lectures and giving participants the opportunity to share their experiences and ideas, the conference aims to create international networks of women from different countries working in similar business environments and to transfer knowledge about specific issues that are characteristic of the region. Additional quality of the Conference is the presence of a number of international experts, prominent persons from economic, political and cultural life, but above all participation of almost 300 female entrepreneurs.

The conference is being organised by GTZ on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), which will endeavour to transfer its positive international experiences from working with female entrepreneurs.

Prepared in cooperation with E kapija.

## Automotive Components Industry

There are about one hundred companies directly involved in production of automotive components and many of them are exporters to markets in Europe and wider. Employing 36,000 people and with total exports of about €100 million, this sector proves its international competitiveness in several key fields. Having FTAs with all countries in the region and Russia – fast growing automotive markets are at the doorstep of potential investors and trade partners.

The most distinctive feature of Serbia's automotive industry is that it was rather strong for a number of years having a peak production of as much as 250,000 cars in 1989, whilst exporting to the USA. These facts separate Serbia from all other countries in the region. The accumulated knowledge and experience is easy to build on and Serbia has all the potential to once again become the automotive center of the Balkans.

Employing 36,000 people and with total exports of about €100 million, this sector proves its international competitiveness in several key fields.

The location of Serbia allows for the establishment of just-in-time supply mechanisms with partners in Western and Central Europe. Given the eastward shifts of production and assembly of passenger vehicles, it is certain that domestic companies will increase their visibility as suppliers and partners to the foreign OEMs and Tiers.

Apart from location, Serbia's great advantage lies in qualified and competitively priced labor. With age structure closely following trends of those in Western Europe, labor force can be considered sufficiently experienced with enough young graduates to sustain a steady flow of qualified labor. In Serbia, around one third of all University students receive a diploma from technical faculties. This fact alone proves that technical sciences are still popular among young people in Serbia.

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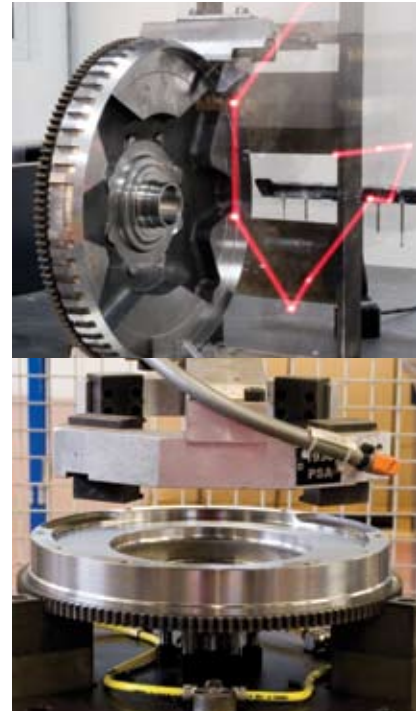
The great potential of this sector lies in its current under-capacity operations, combined with competitive and experienced labor. This attracted many foreign companies to establish cooperation with domestic companies and there are number of major players in both exports and investments. Serbia can be seen as an open door to many neighboring markets in which the automotive industry is either developing or will develop in the following five to ten years.

### FAS Sombor

Battery manufacturer from Sombor has proved once again that innovations bring about great results when it comes to sales. In 2003 the company has invested in latest state-of-the-art machinery for production of car batteries and two years later new hybrid battery has been produced. This new type of battery has been awarded by SIEPA as the Best New Export Product. The batteries have proved excellent in extreme conditions and the reliability of the batteries has earned the trust of customers worldwide. From blazing hot Middle Eastern climate to freezing Siberia – FAS batteries have not let down their buyers.

### Jucit Invest

Company closely specializing in production of car jack leavers has been established in 2001 and is already Tier 1 supplier for major French OEMs. Company is rather ambitious, planning to play an important role in the world car jack lever market. It has brought about innovation to its products and patented a part of its products. Company has gradually expanded its production to plastic housings for the jacks and developed set of solutions to reduce noise in the toolboxes provided with the car. All in all, this company has proven its keen ability to produce and develop competitive products, which will surely let them become significant players on the global market.



### Zastava Kovacnica

Producer of forgings for Zastava Cars, privatized in 2005 has been a fine example of innovation in automotive industry. One of the most distinctive products of the company is forged housings for automatic gearboxes. Company has developed and engineered this product and achieved higher durability which was perceived as very valuable by its customers. Zastava Kovacnica successfully cooperates as supplier to GM and there is no doubt that other OEMs will recognize this as opportunity for improvements of their own products.

### Unior

Formerly Zastava Toolshop, this company has been privatized by Slovenian Unior. Company specializes in development and production of tools and is excelling in production of stamping tools. Company has received very positive opinions about the quality of the tools and this is one of the good examples of successful privatization. Modernized machine park, highly skilled labor and outstanding production quality is what separates this company from other companies.



**Mr. Damir Firšt**  
Chairman of Board of Directors,  
METRO Cash & Carry

Why did you choose to invest in the retail industry in Serbia?

METRO Cash & Carry is the world wholesale market leader operating with 544 distribution centers in 28 countries. After the government announcement of the introduction of VAT law which was vital for starting the operations of METRO Cash & Carry business in Serbia, we could go ahead with plans to invest and open first cash & carry distribution center in Serbia. Although the final version of Trade law is not yet completed, we hope that the new law will define wholesale and cash & carry concept in line with the definition of the World Trade Organization (WTO). Also, we expect that Serbia, as a future member, will completely follow all the terms set with this organization.

To what extent have your expectations been met so far and what are your plans for the future?

We are satisfied with the work of our distribution centers in Belgrade and Kragujevac, in which company has invested €60 million during the last year. We are especially pleased with our employees and, based on our

previous experience, I would like to say that Serbia has a large number of qualified, highly educated people with great potential for further improvement. METRO has employed over 1,000 people and until now interest to join the METRO team was enormous. During each job opening we have received several times bigger number of applications than requested.

In addition, during 2005, we have developed collaboration with around a thousand domestic producers and suppliers. For this year, we are planning production of the first Serbian product under METRO's own brand and that will probably be a product from the food assortment. It will be a great satisfaction for us to see Serbian products on the METRO's shelves in the countries such as Netherlands, England or Japan.

Serbia has significant tendency for progress and adoption of world's standards and creation of modern regulations. As the final result of such creation of positive business atmosphere, new investments will follow and METRO Cash & Carry will realize them by opening its outlets in the cities where the administrative and legal conditions will be solved in the fastest way. The only right way for developing the Serbian economy at this moment is to be open to the novelties with the total respect for the local specificities. Serbia, together with the region of South East Europe, is the

main growth market in the next period and therefore, we expect that the trend of investment in this area will be continued with more intensity.

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

In 2005, Organization for Economic Cooperation and Development (OECD), as part of the fourth annual SEE Ministerial Conference on Investment and Trade, has awarded METRO Cash & Carry Serbia as the Largest Regional Greenfield Investment. This award speaks much about our approach to the Serbian market and its economy which grows fast. This information will be significant for the potential foreign investors, since in the world trade circles, METRO has a reputation of a pioneer in entering new markets. Furthermore, the company invests only in countries where all financial and trade regulations necessary for doing legal business exist. To conclude, in Serbia conditions for serious investors exist and they are constantly improving. METRO Cash & Carry Serbia has opened its first distribution centre at the beginning of 2005. Openings of other two centers in Zemun (Belgrade) and Kragujevac are proofs of great potential of this country which is very attractive to investors. Our investments from the last year are only the beginning of further actions which will follow soon.



## Types of Buyers in Central and Eastern Europe

Countries within South East Europe (SEE) are characterized by 8 types of shoppers and the common one, when looking at 10 markets, is the Saver although having different concentration over the region. The region itself is not unique but subdivided into 4 sub regions, according to the differences and affinities within the buyer typology.

The SEE region is characterized by a growing competition when it comes to trade development and this process goes hand in hand with buyer sophistication and demands resulting in different shopping styles.

The number of households using their own cars when shopping for food and basic non food products is still growing in Central and Eastern Europe (Czech Republic, Slovakia, Poland, Hungary, Romania, Bulgaria, Serbia, Montenegro, Croatia, Ukraine represented by Kiev, and Russia being represented by Moscow and St. Petersburg). Recent research of the SEE buyer typology conducted by INCOMA Research and GfK suggests that more than 21 million households are mobile, i.e. using cars when going shopping for food and basic non food products.

This figure represents more than 40% of the observed population. This fact has wider consequences: mobility gives consumers the power to be more selective when choosing the main shopping venue, producing greater sensitivity to price levels in different shop types.

Among most mobile and, at the same time, most price sensitive SEE countries are: Czech Republic, Hungary, Poland and Slovakia where 60% of all households are very choosy due to prices when deciding on a shopping venue. On the other hand, Romania and Bulgaria have less than 25% of households (around 3 million households in both countries in total) that use their own cars when shopping for groceries.

The most common buyer in the SEE region is the so called Saver.

This correlates with the fact that almost 70% of Bulgarian and Romanian households do not prioritize based on the quality of the selling point, like cleanness and arrangements.

There are major differences between SEE countries in relation to representation proportion of certain types of buyers. According to the buyer typology, the most common buyer in the SEE region, one of the basic 8 types defined in the buyer typology research, is the so called Saver. He represents more than 8.5 million households, i.e. 17% of the observed population.

This type of spending behavior is characterized by price deals available at different offers and deals.

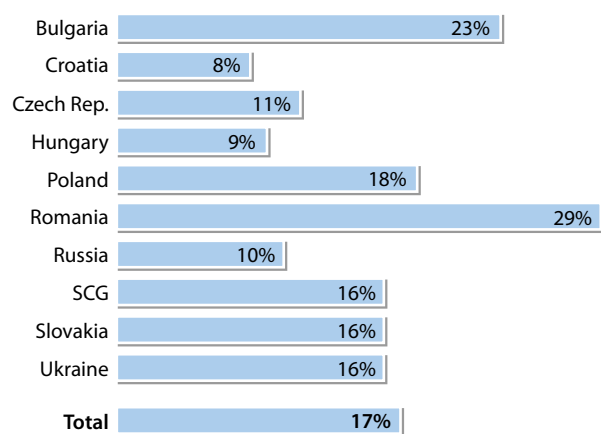
Representation of the Saver is different when looking through the SEE region. This is the most frequent buyer type in Romania with 29%, Bulgaria with 23%, while it is much less present in other parts of the region. This type of a buyer is least present in Croatia and Hungary, 8% and 9% respectively, and Czech Republic with 11%. Serbia has moderate participation amounting to 16%.

There is an important affinity in the distribution of types of buyers between the four countries of Central Europe and among countries of ex-Yugoslavia.

The buyer typology research is suggesting a different SEE regional segmentation. There is an important affinity in the distribution of types of buyers between the four countries of Central Europe (Czech Republic, Hungary, Poland and Slovakia) and among countries of ex-Yugoslavia (Serbia, Montenegro and Croatia). However, there are some other similarities, for example, in Czech Republic and Croatia there is a very low presence of Communicative Housewives, whilst that is much more frequent in Serbia, as well as Slovakia, Hungary and Russia.

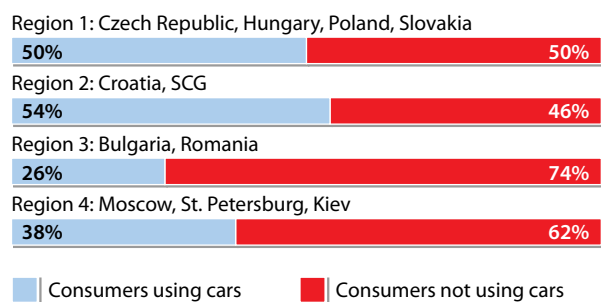
The results of this research show there are connections between eastern Balkan countries (Bulgaria and Romania) and certain cities of the former Soviet Union (Moscow, St. Petersburg and Kiev) having a high percentage of buyer types not using cars when shopping for groceries (65-75%), as well as an important segment of consumers that are not as demanding when it comes to the store environment (55-65%).

**Comparison of the Savings Segment According to Buyers Typology (in SEE countries)**



■ Proportion of one of the purchasing styles

**Proportion of Types of Buyers in the 10 Observed SEE Countries**



■ Consumers using cars    ■ Consumers not using cars

Source: GfK

## Belgrade

**May 7 – 12, 2007**  
**Belgrade Design Week**

Branding, design, architecture, publishing, business, more than 50 exhibitions, happenings, and presentations will be held in different venues around Belgrade. The central manifestation, world business and educational conference called Change 2 will be held from May 10-12 under the patronage of the President of Serbia Mr.

### Hot Spots

#### Relax Plato

When you step into the Spa Zone of Relax Plato you have entered into your own empire of enjoyment and harmony. This type of premises is unique in Belgrade and it is envisaged as a peace oasis for business people and families. Guests are offered to have a drink or lunch throughout their newspaper reading session or some of the numerous books published by the Plato bookstore. The restaurant has self service option together with a la card featuring a great variety of dishes. The recommendation is the All Natural menu made of 9 meals such as tofu or tuna steak with avocado salad. In addition, the Spa Zone offers massages, sauna, and steam room. You may have your personal trainer assist you getting into shape according to your special needs, while Ella Bache treatments will enrich your face and body.

Address: Masarikova 5, Belgrade,  
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[www.relaxplato.com](http://www.relaxplato.com)



In cooperation with  
Caffe&Bar magazine by Frame Media.

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**May 8 – 13, 2007**  
**Antique Fest**

The Museum of Applied Arts together with the Association of Professional Antiquaries is organizing the 5<sup>th</sup> antique fair. The exhibits will be presented by 12 antiquaries of this association and one restoration professional. Visitors will be in a position to enjoy really fascinating display of applied art, decorative objects made of porcelain, glass, silver, carpets, watches, jewelry and paintings.

**May 11, 2007**  
**Gary Moore – Concert**

Sava Center will host this world famous blues guitarist performing songs from the Close as you get album, out on May 23. He started his career during 1960's and has played on more than 30 albums, while he became world famous after issuing Still Got the Blues in 1990. His major hits include Parisienne Walkways, Out in the Fields, Friday on My Mind, Still Got the Blues (For You).

**May 20, 2007**  
**Swan Lake – Ballet**

In cooperation with the French Cultural Center and Belgrade National Theater, Sava Center will be the venue for the ballet written by Pyotr Ilyich Tchaikovsky. Members of the orchestra and the ensemble of National Theater will host Emille Cozette and Christophe Duquenne, from a ballet group of the Paris National Theater, in the roles of Odette and Prince Siegfried.

**May 23, 2007**  
**Paco De Lucia Concert**

One of the most appreciated flamenco guitarist will be having a concert in Sava Center. This artist famous for the new flamenco movement is equally talented

for classical, jazz and world music. Up to now he published numerous albums of traditional and modern flamenco music, working with names such as Al Di Meola and John McLaughlin.

### The Other Home

**Mirko Bernuzzi**  
Director Pompea Serbia

#### Do you enjoy your life in Serbia?

In a city such as Belgrade energy and vivacity of Serbian people can be felt. It can be felt in everything, culture, sports, I would say in everything. The vigor is very important for us, the people that are coming to Serbia. It is very unpleasant to be working and living in a country whose people are inert, however it is certain that Serbia is not and that is why it is our pleasure to be coming and working here. When it comes to hospitality, there are no words to describe it, how can I describe that generosity, actually we feel like at home.

### Novi Sad

**May 4 – 7, 2007**  
**The Days for Movies from Holland Film Festival**

Right after the presentation of movies from Denmark, the Cultural Center of Novi Sad is presenting movies from Holland. Animated movies, Simon – directed by Eddy Terstall, then Me and My Parents, My Parents and I – directed by Gerrit van Elst, and The Last Victory – directed by John Appel are those that will be shown to the local movie lovers.

SIEPA

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