



Current Issues



Meet Us



Industry Close Up **Agriculture**



Investor Personally **Mr. Stefanos Vafidis** General Manager, Coca-Cola HBC Serbia



Monthly Reporting **Doubling the Household Mineral Water Market**



Arts & Entertainment



The Other Home **Oliver Maller** from Germany Chief Technology Officer, Baufinanzierung - Bayern



Hot Spots **Zlatibor Lakes**

16 Serbian Companies Producing for Metro Cash & Carry

Metro Cash&Carry is producing goods under its own trademarks in Serbia. The production is carried out by 16 domestic manufacturers producing as many as 59 articles, enabling them to export onto three continents. The products carry names of two Metro's brands - Aro and Metro Quality. Aro includes various food and non-food products, while Metro Quality products are intended mainly for hotels and restaurants.

Centrotekstil for Sale

Swiss company Home Art & Sales Services gave the best offer for a takeover of Centrotekstil, a joint-stock company for foreign and internal trade. The first-ranked bidder offered €18.9 million for the company and €3 million for an investment program. After the announcement of the tender list, the Serbian Privatization Agency and the Swiss company will start negotiations on signing the contract.

SIEPA

New Contracts on Financial Support for Creating New Jobs Signed

The largest Serbian factory for producing childrens footware, Bela Palanka based company Pavle, will employ additional 55 workers (in addition to the already employed 120) as a result of a €1.5 million investment. SIEPA has supported that project with €110,000 through its program of financial support of job creation. The company is obliged to complete the project in next three years

Investment Funds Rising

Following the enactment of the Law on Investment Funds it is estimated that between 5 and 10 could become operative by the end of 2007. The ice breaking fund was Delta Plus, which was officially put into operation on February 26, 2007, while the Raiffeisen Bank will be the second to follow soon. Also, in addition to some domestic banks and broker companies, there are also some Slovenian and Croatian investors who are interested in founding funds in Serbia.

Sale of Vrujci Spa Expected In March

One of the most popular spa resorts in Serbia - Vrujci Spa near Mionica is up for sale. The starting price is €2.25 million and there are several foreign companies interested in buying. The Spa complex encompasses a three star hotel, with 100 rooms and 220 beds, indoor swimming pool, sauna, trim cabinet, doctors' offices, room for physiotherapy, and congress hall. In addition, the Spa complex includes three outdoor swimming pools, two football and four tennis courts, as well as several courts for mini sports. Finally, the buyer will acquire the right to exploit existing and new sources of thermo-mineral water in the Spa grounds.

The New Foundry

The preparatory works for the construction of state-of-the-art foundry for production of ferrosilicium have begun on the wasteland in the Industrial Zone Majdanpek. Construction of this unit is worth more than €40 million and is financed by the Slovenian company Ferolegure.

According to the official announcement, the factory will have two furnaces and the latest equipment meeting the highest ecological standards. It is expected that this unit will initially employ 200 workers.

Meet Us

March 13 - 15, 2007
MIPIM, Cannes, France

March 15 - 21, 2007
CEBIT, Hannover, Germany

March 18 - 20, 2007
ProWein,
Düsseldorf, Germany

March 25 - 28, 2007
Investment seminar CEE/SEE,
Japan

€3.5 Billion of FDI Expected in 2007

The President of the Foreign Investors Council, Budimir Kostić, expects that the inflow of FDI in Serbia will reach €3.5 billion in 2007. This year, the privatization of the Petroleum Industry of Serbia (NIS) will be completed and, through that process, a significant inflow of foreign investments is expected. Namely, Kostić explained that through the privatization process of NIS, the Government will sell 25% of stocks and the workers, receiving 12% of stocks, will do the same, together representing a significant inflow.

An Elite Congress Center of Southeast Europe

The construction of the Big Balcony on Palić will be the largest investment in 2007 in Vojvodina, as it will include the construction of several 4 and 5 star hotels. In addition, according to the master plan swimming pools, cycling track and golf courts will be built. The value of the investment is around €50 million and it will be completed within 12 months. The plan for the Big Balcony is to become an elite Congress Center of Southeast Europe.

Serbian Water in Africa

The Serbian company Zlatibor Voda has signed a contract with the company Ro'ya middle est llc to export water to United Arab Emirates and African countries. The contract is signed at the food fair Gulfood 2007 in Dubai for a period of five years. The first 3 million bottles will be exported by the end of 2007.

Another Gorenje Factory

Slovenian company Gorenje plans to build another factory in Valjevo during 2007. The factory producing tools will be built in the near vicinity of its present factory for production of cooling devices. Also, Gorenje plans to have a duty-free zone and a warehouse built in Valjevo.

The main advantages of this location were already trained workers from a local company Krušik and having one of the most modern tool factories on the territory of former Yugoslavia with already built in infrastructure.

Hilton in Belgrade?

On February 20, 2007, the Manager of the Republic Directorate for Property Milan Tomić, has signed the sale of the Federal Ministry of Internal Affairs complex in Belgrade's city center to the company Soravia Invest for €35,05 million.

The complex consist of several business and yard buildings with a total surface of about 22,600 square meters that was heavily damaged during the NATO campaign in 1999. The new owner has already announced that at least €100 million will be invested in the construction of the four or five star hotel with 400 rooms, fitness center, conference halls and office space. The hotel will most probably aim at becoming a part of the Hilton hotel chain. Also, if the land utilization plan allows it, Soravia will construct a business building on this location. At the moment it is known that the supervisor on this project will be from Austria, whereas the construction will be entrusted to Serbian companies.

Another Greek Company in Serbian Energy Sector

Greek company Neochimiki has signed a €16.3 million contract on procurement of 70% of public assets in Oil Refinery Belgrade. According to the Privatization Agency, investment program is worth €15 million and the buyer accepted certain additional elements of the social program.

First Private Trains in Serbia in 2009

The General Manager of Serbian Railways, Milanko Sarancic, announced that the first private trains will be introduced in Serbia in 2009. "The introduction of the private railway transportation in Serbia was enabled two years ago with the passing of the new Law on Railways. However, the conditions for all those interested in obtaining a working license can not be created during 2007 and 2008, said Sarancic. The new tariff system for railway use Serbia is in progress, whilst the Law already stipulated regulations, terms and methods for obtaining working licenses.

The Sale of Belgrade's Hippodrome

After the public invitation is announced, the auction of Belgrade's Hippodrome should take place in the second half of March. The Privatization Agency of Serbia expects Hippodrome to get the new owner before the beginning of the next racing season.

The most valuable property owned by the company is the contract on land usage, which was signed for a 30 year period with Belgrade's City Assembly back in 1988. Hippodrome went bankrupt on March 7, 2006, due to its debts. The estimated value of the company's property is about 70 million RSD, while the starting bidding price on the auction will be 45 million RSD.

Wind Power

3,000 wind-generators will be produced in Subotica-based subsidiary Loher (German company that operates under Siemens) by the end of 2007 and that will make this company the largest individual unit for production of wind-generators in Europe in 2008. So far, Loher has invested €3.5 million into this 500 square meters facility.

Prepared in cooperation with E kapija.

SIEPA

SIEPA at Food Fairs

Seven Serbian companies took part at Fruit Logistica fair in Berlin – a fair of fresh fruits, vegetable and products made of fruits: Fruitland, Naturacoop, PIK Južni Banat, Igda, ITN, Sirogojno company and Medoprodukt. Another six companies presented their products on the organic food fair in Nuremberg – Biofach: Agrokula, Suncokret, Rodoslovi, Foodland, Zadrugar and BMD. All of them met fierce standards, as they are certified organic food producers. The focus of this year's Biofach was on the forest fruits picked from certified areas. The fair participation on these two fairs was jointly made possible by the Ministry of Agriculture, Forestry and Water management, SIEPA, GTZ, and USAID/SEDP.

SIEPA has also organized fair participation for seven companies at the international food fair Gulfud 2007 in Dubai. Valeta, Planima Farms, Arex Marzipan, Pionir, Artival, Zlatibor voda and Agranela had the chance to present their dairy, confectionary and mineral water products, but also prunes, dried sour cherries, apples and poultry meat with Halal certificate.

Agriculture

Characterized by rich land resources and favorable climate, agriculture represents a vital sector of the Serbian economy. The importance of agriculture in Serbian economy is derived from excellent natural conditions and traditionally important role within primary agricultural and food processing industry.

A great variety of different natural conditions result in a high diversity of agricultural production. Serbian terrain ranges from flat and rich lowlands of Vojvodina in the north, to hilly terrain in the central Serbia and high mountains on east, west and south borders of the country, suitable for cattle breeding and growing of various fruits. Overall, out of the total population working in this sector, 61% is employed full time. Furthermore, agricultural sector accounts for approximately 16.6% of the total GDP.

Total area of agricultural land in Serbia reached 4,242,223 ha in 2005. The share of arable land within the total agricultural lands represents 85.3%, of which 39% is in the province of Vojvodina. The agricultural production is based on privately

owned farms, thus looking at the structure, small private households are dominating. Private farms cultivate approximately 85% of agricultural land, or 80% of arable land. Only 5.5% of producers from the total number of 778,891 cultivate over 10 ha of land. However, the most important producers are large farms, also representing the bedrock for large processing capacities.

Vegetable Sector

The annual vegetable production is approximately 2 million tons with significant surpluses for processing and exports. Vegetable processing industry in Serbia includes about 25 companies with capacity for production of frozen, canned and dried vegetables. Large companies dominate the industry including Yucum, Frikom, PIK Bečej, Aleva Novi Kneževac, Vitaminka Horgoš, Naturacoop, Cooperative Gospodinci, and BAG Bačko Gradište.

The major processed vegetable crops in Serbia are potatoes (French fries, potato chips and puree),

tomatoes (tomato paste products, tomato juices, ketchup) and pepper (pasteurized, dried paprika and ajvar). Other important processed products include: mushrooms (pasteurized and dried), cucumbers (pickles) and beans.

Fruit Sector

Serbia's fruit processing industry is well developed and poised to lead export growth for the country. Currently, the industry exports juices, concentrates, purees, jams, frozen and dried fruit. Premium juices have always used high quality Serbian fruit as a basic ingredient, and now Serbia's own premium juice brands are one of the country's fastest growing exports.

The country's soil is still one of the cleanest in Europe, most of the fruit is grown in perfect conditions, hand picked and carefully stored and packaged. Serbian fruit cultivation, which places an emphasis on quality and flavor, contrasts with the large industrialized farms of the West. In fact, most fruit in Serbia is still grown on small, family owned farms.



Demand for Serbian fruit is growing steadily, with exports showing an upward trend not just in quantity but also in the number of countries which are becoming importers. In 2004, Serbia exported \$163 million in fruit and fruit products. The vast majority of Serbian exports go to the European Union, and as the EU's health standards become stricter many companies have quickly responded by introducing quality standards such as HACCP.

Organic Sector

The organic production of vegetable crops in Serbia is developing with strong governmental incentive and assistance. Large plough field areas and present capacities for local consumption and production of quality seeds and seeding represent a solid foundation for future increase in volume of organic production in Serbia. At present, food is being produced organically on more than 200,000 ha of land representing around 4% of total cultivable land in Serbia. There is an extensive range of organic products like raspberries, sour cherries, prunes, organic frozen products such as strawberries, blackberries, apples, vegetables and other juice concentrates, then dried prunes and other dried fruit, wheat, barley, sunflower, corn, and pumpkin seed.

In addition, forest communities in Serbia are bound with wild berries and collecting this particular fruit is traditionally present in villages around the county. In mountainous regions – blueberries, juniper blackberries, raspberries, dog roses, and forest strawberries are mostly collected, while in hilly regions – walnuts, hazelnuts, pomes, drupes, etc. Furthermore, lowlands are rich with elderberries and alike. Overall, the total of 122 species of wild fruit from 38 genera can be found in Serbia.



Booming Serbia at International Food Fairs

The month of February has proved to be very successful for the Serbian food processing companies as they have participated at highly influential food fairs around the globe. Starting with FruitLogistica where seven participating companies have established numerous contacts and the sales are expected to reach \$3.5 million, from this fair alone. Nuremberg's highly renowned organic food fair Biofach hosted 6 domestic companies whose successes were confirmed by the total sales contract values over \$3.6 million. Finally, Gulfood in Dubai was, yet another, accomplishment for seven companies that have exhibited at this highly profiled Middle East food fair. Zlatibor Voda has signed a contract with a local distributor and ensured delivery of 3 million bottles of water only in the first year, while the contract was signed for a 5 year period. In addition, Voda Voda, another water company from Serbia, has received an offer by the Emirates Airline to supply them with the Serbian water.

Mr. Stefanos Vafidis

General Manager,
Coca-Cola HBC Serbia

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

Coca-Cola HBC operates in Serbia since 1997, at the time representing the largest foreign investment in former Yugoslavia. Being the company which operates locally, Coca-Cola HBC believes in future development and prospect of your country. For us, Serbia represents a dynamic, fast growing market, with a great potential for further progress. Significant commitment to the local operations has been confirmed by recent acquisitions, aligned with our strategy to expand our range of non-alcoholic beverages.

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

Since 1997, Coca-Cola HBC has been constantly investing in Serbia, through increasing production capacities and intensifying business operations to meet growing and changing consumer needs. At the moment, the company produces as many as 58 SCUs, compared to 1997, when there were 15. There is an enormous improvement in the investment climate since 1997, still, we believe that further economic stability and faster legislative changes toward EU succession are prerequisite to secure and accelerate the existing growth trend. In 2005, implementing our strategy of expanding into new categories, we acquired Vlasinka as one of the leading local water producers and a juice producer Fresh & Co. Having ambitious plans in Serbia, we expect further growth in all AFB categories as the main areas of our company's expertise.

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

Serbia is in early transition period, but a fast growing one, with a lot of opportunities for investors. Economy has been stabilized over the recent years, and more security for foreign investors has been provided. Purchasing power is increasing, consumption per capita is growing and gray market impact is drastically decreased. There are a lot of opportunities to exploit, especially for sourcing quality raw materials and entering new markets. Also, Serbia has high potential people resources, coming from quality education and current increase of repatriation. All of this, together with highly developed consumer habits gives me a confidence that this market could be one of the most potential markets in the region.



Doubling the Household Mineral Water Market

Source: GfK Omnibus

Mineral water market research is related to data from GfK panel of households for the period starting January up until December 2005.

Starting 2003 until 2005 the quantity of natural mineral water at the market has almost doubled – from 13.07% to 23.7%, measured in absolute values. Reasons that have led to this rapid increase are numerous. Among other things, probably the common belief that tap water has poor quality, thus pushing bottled water is its first substitute. At the same time, there are strong marketing campaigns of certain bottled water producers communicating with consumers, namely ads and packaging for Voda Voda, Rosa and Aqua Viva brands.

However, the Serbian market is generally dominated by sparkling mineral water as its share is three times larger than the still water share. Our market is still traditional in terms of introducing different flavors of mineral water, thus only 0.4% of the market share belongs to flavored water. Also, it is important to mention that an offer of such water is very limited. At the moment, the only flavored water available at the market is lemon-flavored water made by Knjaz Miloš and a limited offer of imported ones.

Data on the mineral water penetration in the market show that 94% of households in Serbia have bought sparkling mineral water during the year 2005, while 48.6% has bought still water during the same period.

When the results of a market share and market penetration are

compared it can be concluded that the still water customer base is larger than expected, based on the market share figures alone. Therefore, even though households do not purchase this type of water regularly, many have this expense from time to time.

Further comparison between sparkling and still water shows that sparkling one is purchased more often, on average two times a month, while still is bought only once a month. However, even though the still water is bought less often, it is acquired in higher quantities – 4.1l compared to 3.6l of sparkling.

Sparkling water is 1.4 Dinars per liter more expensive than still, but this difference is not a crucial fact that could influence the higher consumption of still water. To this fact the tradition of drinking, flavor, belief of wholesomeness on digestive system, consumption of a traditional alcoholic drink that contains white vine and sparkling water, together with other factors are considered crucial.

Looking at the distribution channels, there are three types of stores where 60% of still mineral water is purchased. Foremost, it is bought in the traditional small stores, nearby consumer residences, followed by supermarkets and groceries. It should be emphasized that liquor stores and hypermarkets are playing an increasingly important role in household supply of still water.

In conclusion, when the brand list and matching market shares are compared, it is visible that the situation is quite stable. There is no dominant

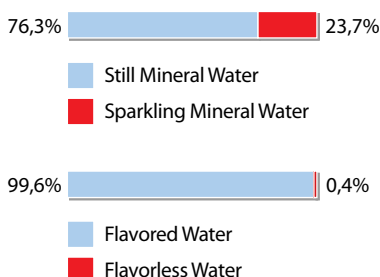


brand of still water producer as it is the case with sparkling water. For that reason, Prolom is mostly purchased still water closely followed by Aqua Viva, Rosa and Voda Voda.

Taking into consideration a growing trend of buying bottled still water as a substitute for tap water and importance of clean water in general, as one of the most important resources on the globe, the further growth of this market can be guaranteed.

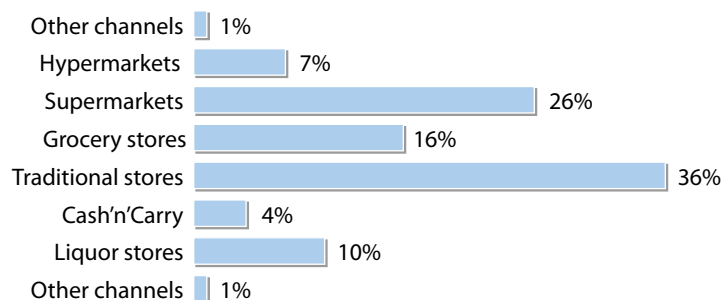
Mineral Water, Quantities by segments

Period: January-December 2005



Still Mineral Water, Percentage of Sales by Distribution Channels

Period: January-December 2005



Belgrade

March 7-8, 2007 Beovizija – Music Festival

Sava Centar will host this years' festival of pop music whose winner will be representing Serbia at the Eurovision Song 2007. The first night 20 songs, chosen by the selection committee, will be presented and the second night first 10 songs will participate in the finals.

February 10 – March 13, 2007 Petar Lubarda Drawings - Exhibition

This exhibition at the Chaos Gallery includes works of different comprehension of a drawing. It points out the spectrum of thematic interest, but at the same time it represents a context of all phenomenal dimensions of a drawing.

March 17, 2007 Russian National Ballet

The Russian Ballet will be holding its performance at the Sava Center depicting a careful preservation of the Russian Classical ballet school, but also the development of the never ending search for new forms of choreographic expressiveness, discovering new models of direction and possibilities of dance.

The Other Home

Oliver Maller
Chief Technology Officer,
Baufinanzierung - Bayern

What is your general experience on living in Serbia?

I remember when I first came to Belgrade, I could feel the energy of the city. It is unbelievable, everything is moving, the country is very open-minded and most of the country serves everything you need. For example, different types of entertainment in the evenings, then in theaters and cinemas you miss nothing. It is really a great place. Also, the nightclubs are quite nice and people know how to party.

Hot Spots

Zlatibor Lakes

Location: Zlatibor Mountain

The apartment complex is situated couple of kilometers away from the downtown Zlatibor. The four apartments are decorated in ethno style and respond to the most demanding guests. Fire place, cable TV and terraces are only some of the commodities provided for the ultimate relaxing holiday. In addition, the complex is offering a restaurant with local food specialties and a coffee shop. Each apartment may host up to 12 guests. Also, in the summer time the nearby beach and the pool table by the lake give that extra comfort and a complete enjoyment.

In cooperation with Caffè&Bar magazine by Frame Media



February 16 – June 30, 2007 Animal World of the Ice Age Exhibition

The typical animals of the ice age that lived on the European continent and have mostly died out will be presented at the Natural Sciences Gallery. The museum will exhibit the most attractive exponents witnessing the presence of animals on European and Serbian grounds together with the reflection of this age in general.

March 23, 2007 Francofonia International Celebration

Every year francofonos of all five continents celebrate the International Day of Francofonia. March will be an opportunity to celebrate the French language that is bringing together 170 million people living all over the planet. This year a fashion show of a young African artist will be the major event at the Sava Center venue. Vibrant colors and magnificent materials together with an original music will be presented to the Belgrade audience.

Novi Sad

March 13 – 17, 2007 Spring Coming to Novi Sad Multicultural Event

In different premises around the city diverse programs will include spring flower exhibition and gardening equipment followed by numerous cultural, entertaining and specialized events. Every day after 18.00 hrs a traditional Serbian, Macedonian, Slovakian music will be played, however lovers of Brazilian art, Latin dances and flamenco will also have the chance to enjoy their passion.

SIEPA

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