

Serbia's rising star

Offering customs-free access to 15% of the global market, a young, talented workforce, and high potential for future growth in sectors such as construction and IT, Serbia has risen to become the leading investment location in Central and Eastern Europe. Foreign direct investment inflows more than doubled between 2013 and 2018, and rose by 4.4% in 2019 to end the year at \$4.3 billion.

Growing the economy and attracting new investment is high on President Aleksandar Vučić's agenda. Speaking with the US Department of International Finance Cooperation after the IFC announced plans to establish operations in Belgrade, he highlighted the importance of new trade and investment, particularly in infrastructure: "It is important to take care of the prosperity of our country, to take care of our people, this is a good job for all people who live together with us. We will build roads and railways. This creates a better life for people, a better economy, everything we dreamed of."

The government is currently undertaking extensive economic reforms to improve the business climate and bolster investment. They will underscore the competitive advantages already on



Aleksandar Vučić
President of Serbia

offer, including an upcoming package of tax incentives that are the most generous in the region, a highly-skilled and cost-effective workforce, and a strong outsourcing industry, particularly IT. A free trade agreement with Russia also offers access to large consumer market, while plans to invest in infrastructure should further support robust growth.

Perhaps that's why Serbia rose four spots on the World Bank's Doing Business 2020 survey to 44th place globally, ahead of Belgium, Montenegro, Croatia, and Hungary, and ranked 9th globally in the "dealing with construction permits" category.

Vučić elaborated on his mid-term plans for the country, which will keep it at the forefront of regional and European growth: "In the next four years, the objective is to raise the economic strength of Serbia including the living standard of citizens, to continue the construction of roads and railways, as well as to enter new projects and strengthen the health power of Serbia. Great things await us; it is important to work, not to be satisfied with the results from the past. I am looking into the future, and I am very optimistic."

Metalfer Group – Thinking Ahead

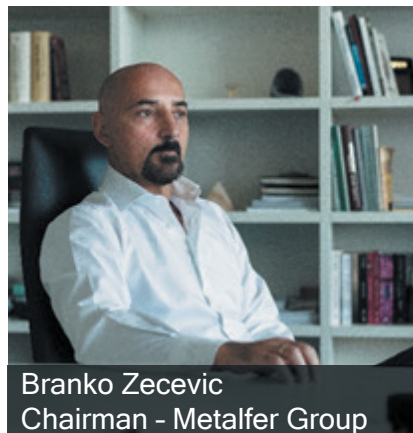
Although industrialization in Serbia has lagged since the 1990s, rapid recent growth is transforming its industrial landscape. Today the country is the largest steel producer in Southeast Europe, and the World Steel Association reports that it led the world in crude steel growth in in 2018, with a 38.9% y-o-y production increase.

This leaves conglomerates like Metalfer Group in pole position to capitalise on new growth opportunities.

Founded in London in 1993, and established in Serbia in 2002, the group was originally active only in steel trading. Since the early 2000s, however, Metalfer's portfolio has swelled to include steel production, mining, and energy business lines. The group recently opened a new rolling mill in July this year, with normal production set to kick off in November.

Chairman Branko Zecevic said an anticipatory approach and early adoption of innovative technology helped Metalfer grow despite intense competition.

"If you want to compete with big international groups, you need to find a niche market and be better than them.



Branko Zecevic
Chairman - Metalfer Group

Vertical integration allows us to retain as much of a profit as possible. We own everything, from sourcing scrap to distribution and sales. We have also ensured that we use the newest technology available in our melt shop and new rolling mill," he said.

The group hit a milestone in 2008 when it established the Metalfer Steel Mill in Serbia. At the time, it was the only factory producing steel reinforcing bars, and its strategic location in Sremska Mitrovica, a regional transport hub, supported further

expansion and growth. In the same year, Metalfer began to expand into mining operations in Serbia, Montenegro, and Bosnia, and in 2011 it launched Metalfer Invest, which is active in power and infrastructure.

Zecevic is now examining potential expansion channels, which could include forming strategic partnerships or a bond issuance. The group is also embracing the highest environmental and sustainability practices, and plans to become the first in the region and industry to obtain green certification.

"I don't think there is a single mill in Europe that is 100% green, and we want to be one of the first. Change for us is easier as a smaller entity. In this business, you have to think ten steps ahead of your competition," said Zecevic.

With steel demand rising, a laser focus on quality and reliability, and new sustainability efforts set to pave the way forward, Metalfer's future is bright.



Novkol Company - Building Innovation

As the world grapples with the economic fallout from the Covid-19 pandemic, Serbia is faring better than most in Europe. The central National Bank of Serbia recently announced that the country's strong, timely, and comprehensive pandemic response helped it avoid a severe economic slowdown, and will also support a speedy recovery. Serbia's recession will be mild - GDP will contract by just 1% in 2020 - and growth is forecast to hit 5% next year. The rebound will be driven by resilient domestic firms such as Novkol Company, a leader in infrastructure construction and geotechnical services for nearly 25 years.

Established in 1997, Novkol's team of experienced engineers, as well as its history of investing in modern equipment and cutting edge practices, have helped it build a reputation as the go-to firm for geotechnical construction that is essential for new infrastructure builds. Today the company employs more than 150 people working on some of the most technically complex builds in the country.

Managing director and co-founder Milos Hranisavljevic said innovation and outside-the-box thinking has been a core component of Novkol's strategy since it was first established. The region was rebuilding after years of war, and business was set to boom.

"There were only three of us, but we invested everything we had into the company and got to work. At that time, we planned to do infrastructural work, hydraulic systems, water systems, sewages, pump stations, but in special conditions. We worked in urban conditions, where the existing buildings are there, where the trenches are very near and deep; it's not a regular work. It was at this point that we began to offer some of our geotechnical services," he said.

The company's corporate identity revolves around providing a full range of services, strong customer satisfaction, and vertically-integrated operations. Hydrotechnical infrastructure offerings include water supply and sewerage structures, reinforced concrete main sewers, pump stations, and other technically-complex infrastructure.

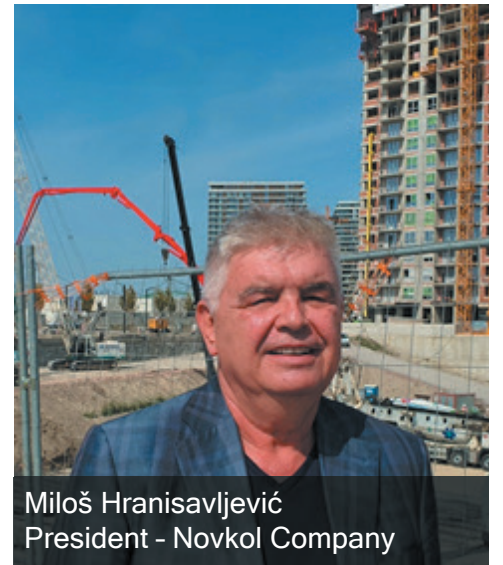
In geotechnical underground

structures, the company has design and execution capacity for a variety of piles, pit protections, concrete barrettes, trenchless technology, jet grouting technology, slopes stabilisation, and dewatering systems, among others.

Novkol's unique expertise in geotechnical underground and hydrotechnical structures is informed by a variety of international best practice, from Europe to the US. It was the first to adopt technology that is now standard in Serbia. According to Hranisavljevic, early adoption of international best practices, for example continuous flight auger piles or, more recently, jet grouting, or using natural degradable polymer regarding environmental protection has kept the company successful over the decades.

"When we wanted to expand out geotechnical piling work, we looked at what was happening in Western countries. We got analysts to study soil conditions in Belgrade and compare them to other areas in Europe. We realized we were quite similar to northern Italy, France, and England, so we then looked at what technology was being used there. Step by step, we showed Serbia that the technology we were using was better," he said.

Although the company faced strong resistance to its early efforts, it remained resilient despite the challenges. As a result, Novkol has been active in building some of the most technically-challenging projects in the country. These include a railway project on the Belgrade-Makis line going throw embankment with "pipe roof" technology, foundation work on wind farm Kovacica,



Miloš Hranisavljević
President - Novkol Company

work on foundation protection pit in historical part of Belgrade "Rajiceva" shopping mol, foundation work and cofferdam for the railway bridge on river Morava and renovation work on historical castle Golubac and Smederevo on river Danube.

It has also expanded its operations to include new projects in Montenegro, and perhaps most significantly, undertaken geotechnical works for the Belgrade Waterfront project, a \$3bn urban revitalisation initiative that includes construction of more than 7000 residential units, building area 1,8 million square meters, Belgrade tower height 168 meter .

Now that Novkol has a demonstrated track record of successful project design and execution, it is turning its attention to expanding current operations, with an view to forging new strategic partnerships that align with its core values and support future growth.

"We know that Serbia is a great business and investment destination, and there are still many opportunities in the market. We have never been pre-occupied with old technologies and old ideas, which I can say has been a problem here in the region for many years. Our forward-thinking approach makes us the partner of choice for international investors, and that will remain the case in the years to come," said Hranisavljevic.



MPC Properties - Reliability and Resilience

Real estate in Serbia is benefitting from the country's economic resilience in the face of the Covid-19 pandemic. While the country will take a modest macroeconomic hit in 2020, analysts project that real estate prices will still rise between 3% and 9% on average this year, while 28,500 sq m of commercial space was commissioned in Belgrade in Q2 2020 as rising urbanization and steady demand for new space continues driving growth.

This means companies like MPC Holding, a diversified conglomerate focused mainly on real estate, should see business booming in the coming years.

Headquartered in Belgrade, MPC Holding was established in 1991 with a focus on the real estate sector through its subsidiaries, real estate service arm Confluence, and real estate investment arm, MPC Properties. The group has expanded over the years to include distribution arm Mercata, a leading domestic consumer goods business.

The group's real estate segment has focused on constructing state-of-the-art office and retail facilities meeting the highest international standards. It has flourished in parallel with Serbia's strong macroeconomic fundamentals, and broader trends that have driven European businesses into the Serbian market. "The recent past has been marked by impressive growth and profits, not only for us. I think that the country's real estate market in general picked up the pace. We have been lucky to operate in an environment that has undergone a lot of growth. There were a lot of developments that had been put on hold for various reasons, but that actually moved forward in the last couple of years, and I think that we contributed to this as a group," according to CEO Tijana Vujović.

A strong track record of developing grade A space has also helped, and MPC Properties has built a reputation for professionalism, timeliness, and reliability since launching in 2002. As a result, it has undertaken more than 30 projects, including the iconic Ušće

Tower One and a network of shopping retail parks, rising to become one of the most experienced operators in the Southeastern European market in the process.

Green building practices are another important facet of MPC Properties' operations. The Navigator Business Center was the first in Belgrade to be awarded LEED Gold certification, and the Ušće Shopping Center was the first LEED EBOM-certified retail project in Serbia. In 2018 the company launched the Ušće Tower Two, and Navigator Business Center II, both of which opened this year. Ušće Tower Two is certified in accordance with BREEAM standard (grade Excellent), offering 232,000 sq m of class A office space, while the Navigator Business Center II is also LEED Gold certified.

2020 marks the opening of 130,000-sq-m BEO Shopping Center, home to 130 top global and European brands, including Peek and Cloppenburg's first Serbia store. MPC Properties currently has around 250,000 sq m of gross leasable area under development.

The company expects retail demand to remain strong in Serbia despite the pandemic.

"As always, life goes back sort of to normal, and consolidation will be our focus in the near future. In terms of retail, the sector has been affected by the pandemic and e-commerce has accelerated, but there are always strategies to move forward, for example hybrid online shopping and in-person experiences. I believe bricks and mortar retail will remain popular, and if demand reaches even 80% of what it was before



Tijana Vujović
CEO - MPC Properties

the crisis, the sector will be fine," she said.

Having set the stage for strong future growth with a long-term vision and sharp focus on quality and sustainability, the company is now shifting its strategy abroad, to both international tenants and investors. Serbia will remain Southeastern Europe's leading economy in the coming years, and foreign firms seeking new space will be searching for grade A properties like MPC's.

MPC Holding is considering moving forward on new partnerships with investors, including private equity funds and REITs (real estate investment trusts), as it seeks to expand its portfolio through new builds. This means making the case for Serbia as a safe, secure, and profitable environment for foreign investment.

"Serbia is lucky because it has educated people who know how to work to the highest standards, demand is rising, and our tax regime is favorable compared to the rest of the world. As for MPC, we would love to be recognized as a company that is a leader not only by its financial results, but a leader in offering new projects and concepts to the market. At the end of the day it's not only about the money, it's also a mission to educate the market and build up the country," she said.

As the trusted partner of choice in Serbian real estate, MPC's future remains bright.

MPC PROPERTIES

Srbijagas - An Energetic Transformation

Robust economic growth and a return to normal has seen Serbia's energy consumption - specifically its natural gas consumption - rise steadily in recent years. Natural gas consumption is projected to hit 32,675 terajoules in 2020, a 22% increase over 2019 levels, and rise a further 15% until 2026 to reach 37,438 TJ. State-owned natural gas company Srbijagas is now investing millions to connect hundreds of thousands of households, building on a track record of recent successes that have made it one of the most profitable public companies in the country.



Dusan Bajatovic
CEO - Srbijagas

Srbijagas was founded in October 2005 through the merger of several state-owned companies including NIS-Gas, NIS-Energogas, and NIS-Jugopetrol, which had been developing the country's gas sector for more than 50 years. Today it is a leading modern gas company that have invested significantly in knowledge, human resources, and infrastructure in support of the country's ongoing energy sector liberalisation.

Under the strong leadership of the new management and CEO Dusan Bajatovic, Serbia's natural gas market has improved significantly since the 2008 financial crisis put a major dent in consumption, although he argued there is still room for improvement.

"Gas currently comprises around 12.5% of Serbia's energy mix, but it should be around 25%. In gas we have nearly returned to the same consumption levels as 2008, and we are actively investing to grow our contribution, since new hydroelectric and coal power is much less feasible. We need sources for quick and flexible electricity production, and only gas can do that, because "shaving" of peaks and shortcomings of electricity production from "green sources" is required" he explained.

The investment case is solid. An engine of economic development in Serbia, Srbijagas has undergone a remarkable transformation in recent years. When Bajatovic took over in 2008, the company's debts stood at €1.4 billion. At the same time, €2.4

billion of consumer and corporate payments were owing, as a result of leading a social policy. The company was selling gas at a loss, without securing receivables. Basically, at the time that was a hidden fiscal deficit of the Republic of Serbia and dramatic reforms were needed.

But the government of Serbia delivered a series of legislative packages beginning in 2016, transforming receivables into capital and improving the company's liquidity. Since then, Srbijagas annual profits have averaged SRD5 billion (€42.5 million). Indeed, between 2015 and 2019, the company reported total net profits of €280 million, with profits rising to hit SRD2 billion (€17 million) during Q1 2020 along.

Bajatovic attributed this success to the company's strong values and deep foundations in the country.

"The brand itself is a big advantage from the start. Our relationship with our customers is great. At any moment, we can guarantee a complete supply of gas and total price transparency. We are supported by our financial recovery and strong foundations, which customers are aware of. We're not only a distributor of gas; we're an important actor in the economic life of Serbia."

Demand has been rising too: In June 2020, Srbijagas reported gas consumption in the country has risen by 30% over the previous three year to hit 2.1 billion cubic metres. Although gas prices are not forecast to increase for individual consumers, the company expects sustained high demand to

continue driving growth next year.

With that in mind, it has invested €870 million to construct a new gas distribution network including high-pressure distribution pipelines and a low-pressure network running across the country. At present, 88 gasification projects are underway, as well as over 17,000 km of distribution network that will connect 128,000 households in the near term, with potential to expand to 500,000 households in total. Projects include 1819 km of steel gas pipelines, 15,512 km of low-pressure network, and 160 km of large high-pressure pipelines.

Having built a solid reputation and become a trusted name, Srbijagas is now setting its sights on further expansion via new strategic partnerships and cooperation agreements, which offer the opportunity for a highly-profitable, high-potential investment opportunity. Bajatovic is looking forward to the next big success story.

"We have unbundled our transporting service, and soon we will do the same with the distributor, as well as the trader. That means that Srbijagas will act as owner of various energy activities, and its role will be more of a fund rather than a public company. We would provide partners with investments, including public-private partnerships, that are backed by the government of the Republic of Serbia. The country is serious about developing its gas sector," he said.

 **SRBIJAGAS**