



Summit 100 Business Leaders of South East Europe

Economic situation in the Southeastern Europe and how to attract investment capital

A new deal for new age
July 2014

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Importance of Southeastern Europe regional economic cooperation and investment capital availability

Discussion points

- 1 Southeastern Europe is **an important, diverse region** in Central and Eastern Europe
- 2 At first sight **conducting business** within the region might seem **cumbersome and unattractive**
- 3 However, the Southeastern Europe has **a realistic growth potential**
- 4 **Investment areas** in the Southeastern Europe are **known, capital available** and **way forward feasible**
- 5 To build on its potential, Southeastern Europe must first **overcome its most pressing challenges**

Southeastern Europe is a relatively large but often neglected region in Central and Eastern Europe

1 General information about Southeastern Europe¹



- Summit 100 is a meeting point for the most distinguished business leaders of South East Europe - from countries of Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Serbia and Slovenia
- This presentation is focused on economic situation in Southeastern Europe, which includes all above stated countries and Albania
- The region is economically important, with over 25 million inhabitants and a combined GDP of EUR 153 billion
- However, the region is very diverse in terms of culture, history and business development
- Due to heavy fragmentation, the region is often neglected and rather seen as a set of small individual markets

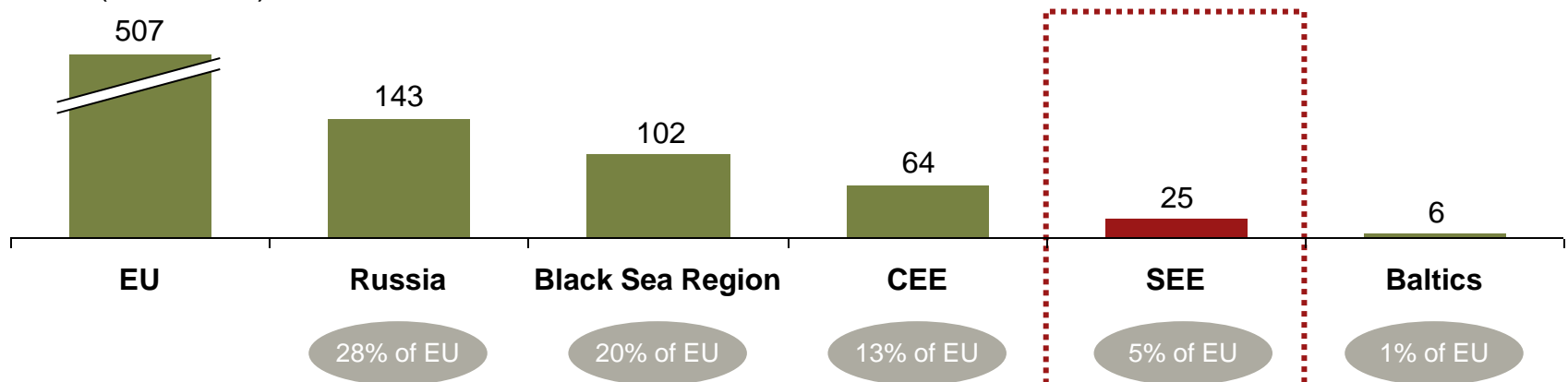
1. Throughout this presentation Southeastern Europe is defined as region including the following countries: Albania, Bosnia and Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro, Serbia and Slovenia; Comparable to political region defined as Western Balkans, which includes countries of Albania, Bosnia and Herzegovina, FYR Macedonia, Kosovo, Montenegro, Serbia (European Commission definition)

Source: World bank, European Commission, A.T. Kearney

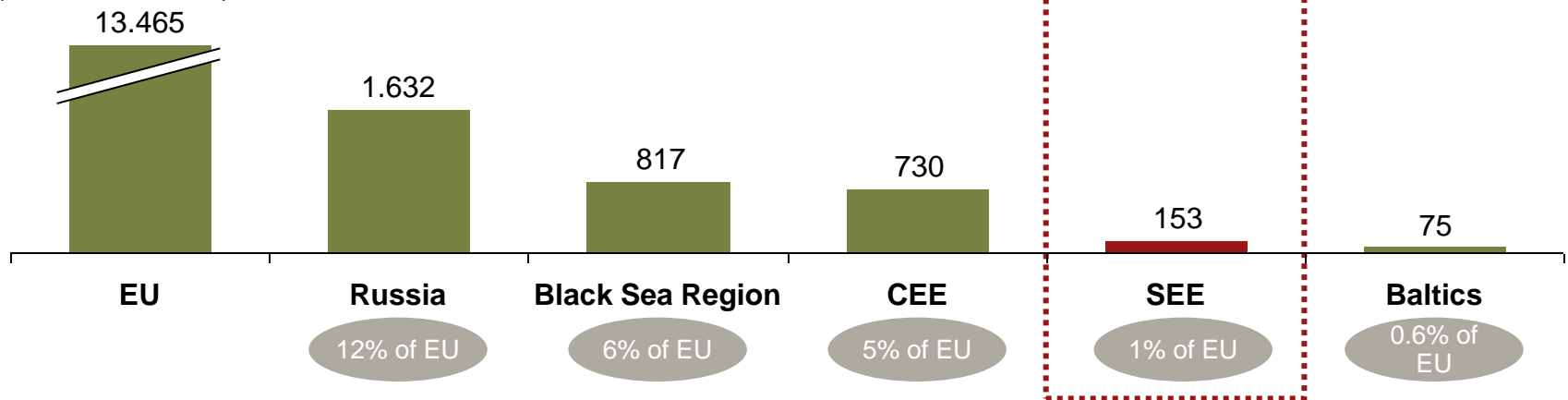
Southeastern Europe represents 5% of EU population, but creates less-than proportional 1% of EU GDP

1 Southeastern Europe size in comparison to selected other regions¹

Population (2013, mil.)



GDP (2012, EUR bn)

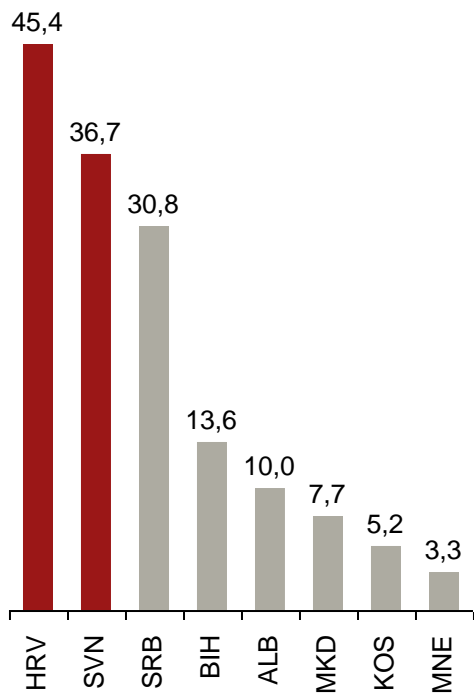


1. Black Sea Region: Bulgaria, Romania and Turkey; Baltics: Estonia, Latvia, Lithuania; CEE: Czech Republic, Hungary, Poland and Slovakia
Source: World Bank, A.T. Kearney

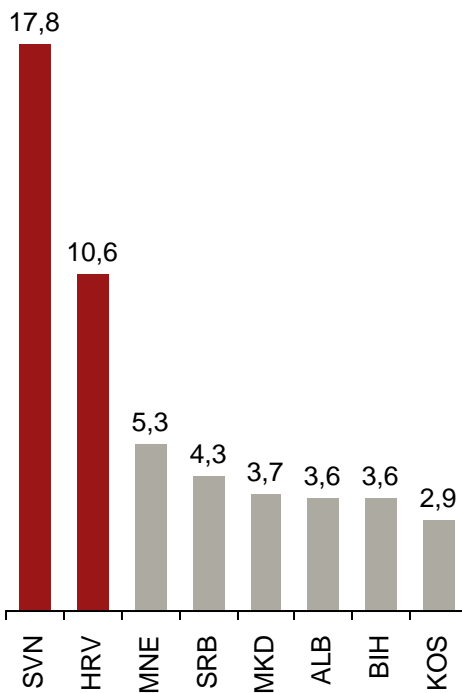
Within the region, Slovenia and Croatia are the strongest economies

1 SEE economies¹ overview, 2012

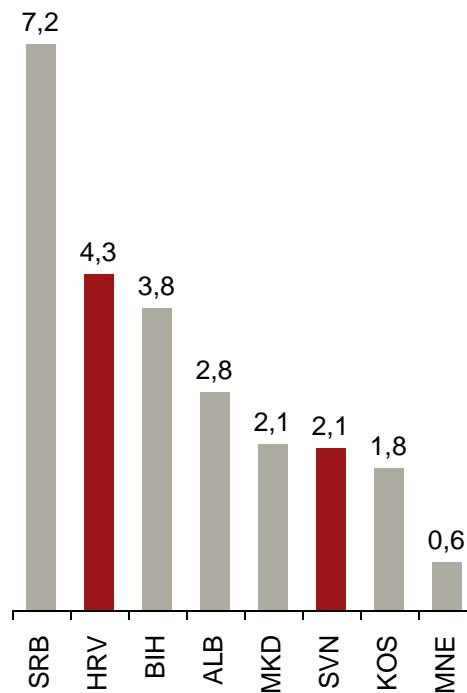
GDP
(EUR bn)



GDP/Capita
(EUR thsd)



Population
(mil)²



1. ALB = Albania, BIH = Bosnia and Herzegovina, HRV = Croatia, KOS = Kosovo, MKD = FYR Macedonia, MNE = Montenegro, SRB = Serbia, SVN = Slovenia

2. 2013 data

Source: World Bank, A.T. Kearney

Southeastern Europe is a very diverse region, with competition among countries intensifying

1 Major competitiveness indicators, 2013

	Albania	BiH	Croatia	Kosovo	FYR Macedonia	Montenegro	Serbia	Slovenia
Corporate Tax rate	10%	10%	20%	10%	10%	9%	15%	17%
Ease of Doing Business Rank¹	90	131	89	86	25	44	93	33
Competitiveness Index²	95	87	75	N/A	73	67	101	62
Corruption Index³	31	42	48	33	44	44	42	57
EU Status	Potential candidate	Potential candidate	Member state	Potential candidate	Candidate country	Candidate country	Candidate country	Member state

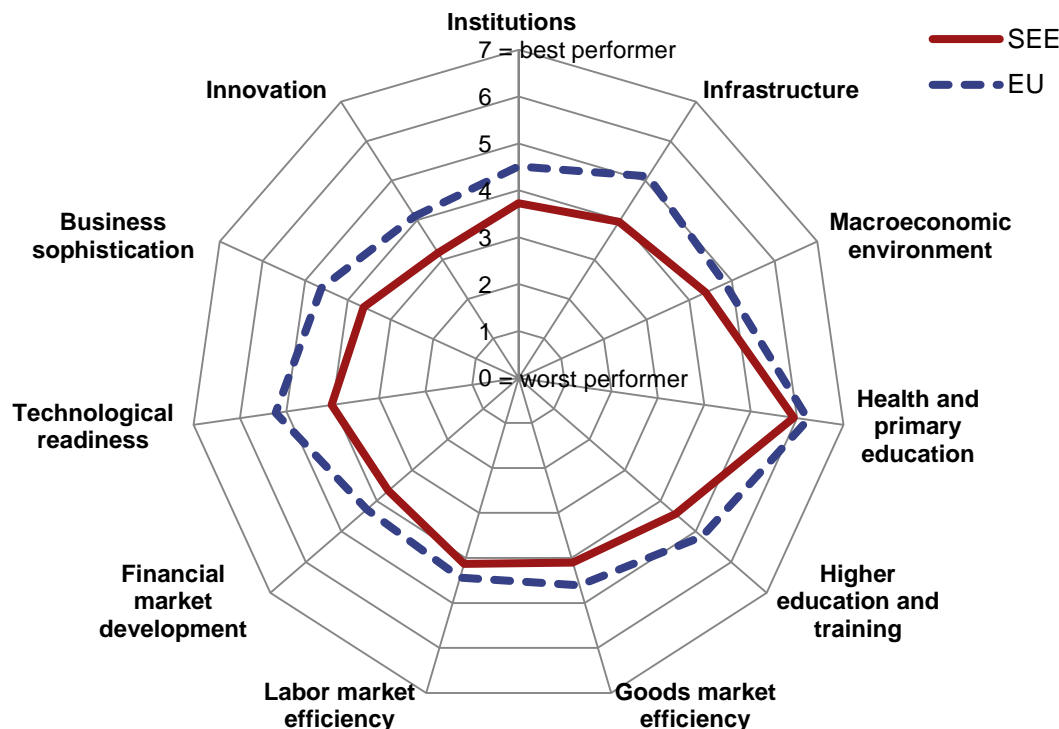
 = first

 = last

1. Ease of doing business ranking conducted annually by the World Bank measuring ease of doing business in specific country according to different indicators (1=best performing country/Singapore in 2013, 189=worst performing country/Chad in 2013)
 2. The Global Competitiveness Report conducted annually by World Economic Forum, measuring country's competitiveness. Competitiveness is defined as the set of institutions, policies, and factors that determine the level of productivity of a country. Competitiveness Index is based on 12 pillars of competitiveness. (Index scores: 1=best performing country/Switzerland in 2013, 148=worst performing country/Chad in 2013)
 3. Conducted annually by Transparency International (1=worst score, 100=best score)
- Source: National statistical offices, World bank, World Economic Forum, Transparency International, European Commission, A.T. Kearney

Southeastern Europe has room for improvement in terms of global competitiveness

2 Pillars of global competitiveness¹, 2013



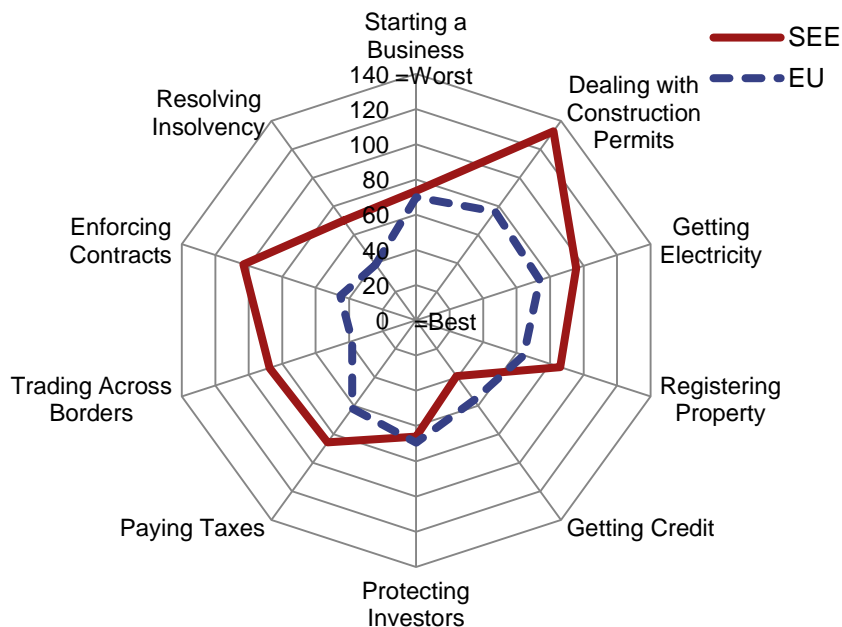
The most significant room for improvement lies in the area of innovation and business sophistication, while health and primary education are already on the level of EU

1. Conducted annually by World Economic Forum measuring country's competitiveness according to 12 pillars of global competitiveness. Pillars of global competitiveness provide country's score (i.e. Competitiveness Index) based on different attributes of its competitiveness. Market size pillar was not included in this analysis.
Source: World Economic Forum - Global Competitiveness Report 2013

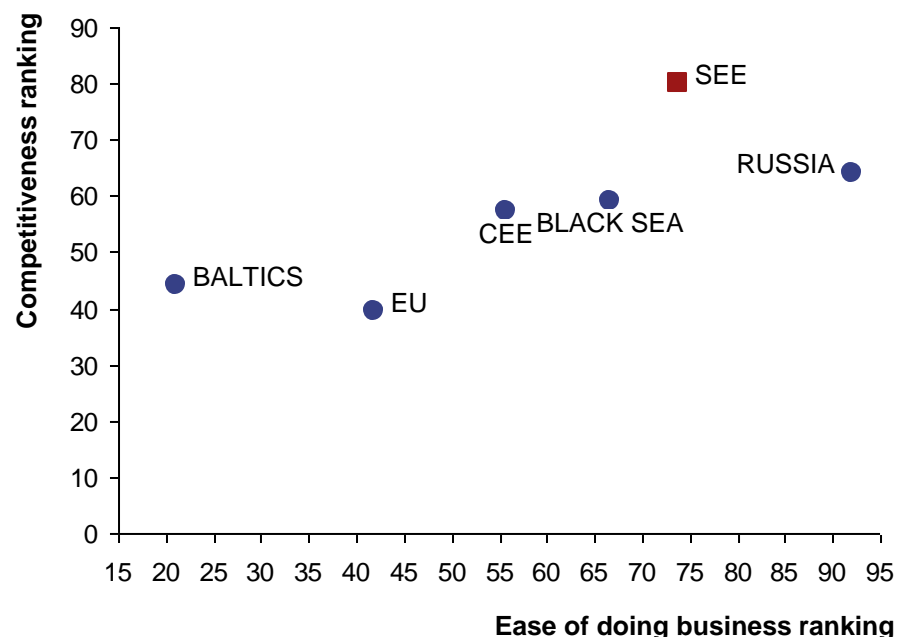
Also, Southeastern Europe has room to grow in terms of ease of doing business

2 Competitiveness and Ease of doing business¹ in SEE

Ease of doing business indicators



Country comparison – competitiveness and ease of doing business rankings¹



When doing business in SEE, companies still endure many obstacles, most notably when dealing with construction permits, enforcing contracts and cross border trade

1. Ease of doing business ranking conducted annually by the World Bank; The Global Competitiveness Report conducted annually by World Economic Forum; Definitions: Black Sea Region: Bulgaria, Romania and Turkey; Baltics: Estonia, Latvia, Lithuania; CEE: Czech Republic, Hungary, Poland and Slovakia Source: World Bank (Ease of doing business ranking), World Economic Forum (Competitiveness ranking), A.T. Kearney

When doing business in SEE, companies still face many barriers...

2 Business restrictions within SEE

Business culture

- Initiating meetings and keeping to deadlines
- Quality of secretaries
- Keeping to agreements

Absurd laws and regulation

- Hardly any specialists from SEE

Persuasive nepotism

- Corruption is rife
- Structures are inflexible

Executive/employee development

- Serious lack of management know-how, strategic capabilities and knowledge in general

Poor travel infrastructure

- Poor air, rail and road connections in the region (not all road corridors have yet been build, rail corridors need modernization...)
- Public transport in its infancy

Inefficient civil service

- Slow administration

... with infrastructure still being one of the main challenges to overcome

2 Infrastructure in Southeastern Europe

Logistics infrastructure

Road transportation:

- Road corridors not finished and often obsolete

Rail transportation:

- Rail corridors need modernization

Aerial transportation:

- Aerial connectivity in the region holds big improvement potential in integration of regional airlines and modernization of local airports

Naval transportation:

- Connectivity among ports should be enhanced and North Adriatic Port Association stands as a key player in regions naval integration

Energy infrastructure

Goal in the following years:

Implementation of 12 priority corridors/areas, necessary to meet EU's energy and climate policy goals by 2020 and beyond by providing policy and regulatory certainty through a stable and appropriate regulatory framework to promote the necessary investments

Infrastructure:

- Transmission: overhead lines, underground or subsea cables
- Storage: installation connected to transmission network
- Gas: pipelines and pumping stations

Important projects

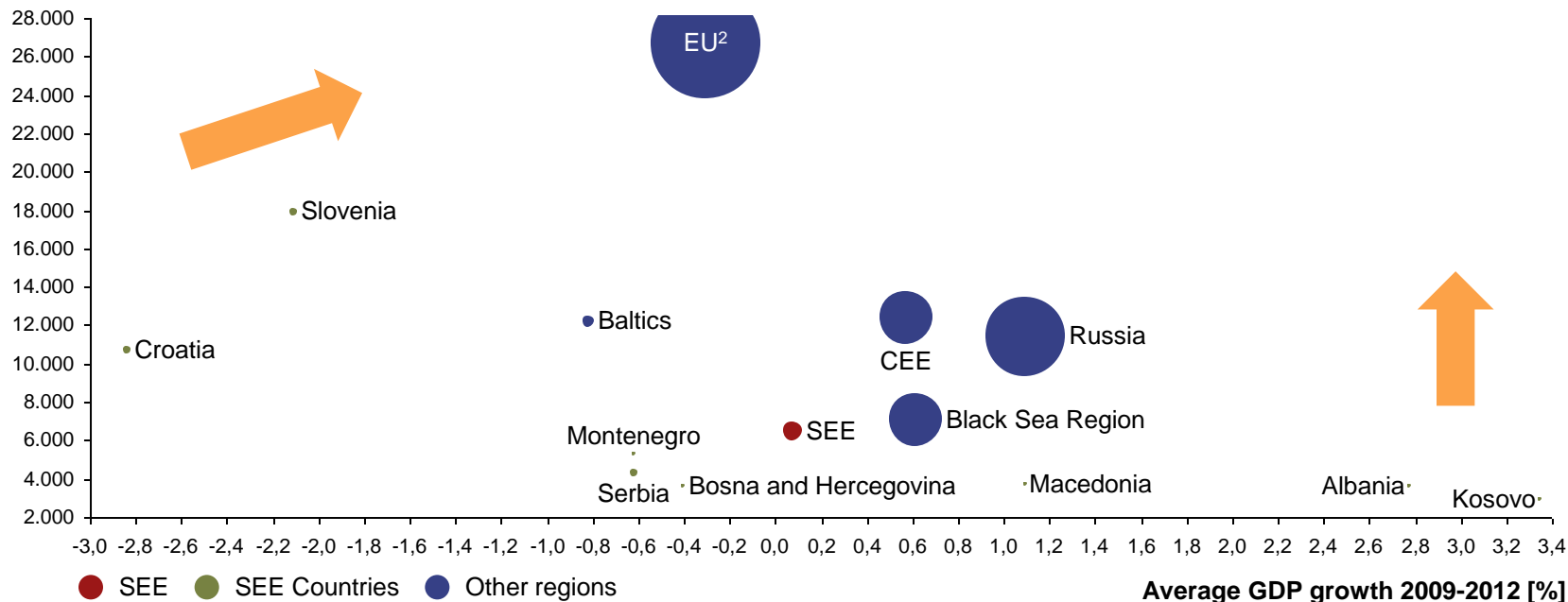
- LNG Croatia
- South stream
- IAP gas pipeline

With a budget of EUR 50bn, Connecting Europe Facility proposal could prove crucial in developing infrastructure and integrating Southeastern Europe in the European Union

However, Southeastern Europe has a realistic growth potential

3 Comparison of GDP growth across regions and countries¹, 2012

GDP per Capita in 2012 [EUR]

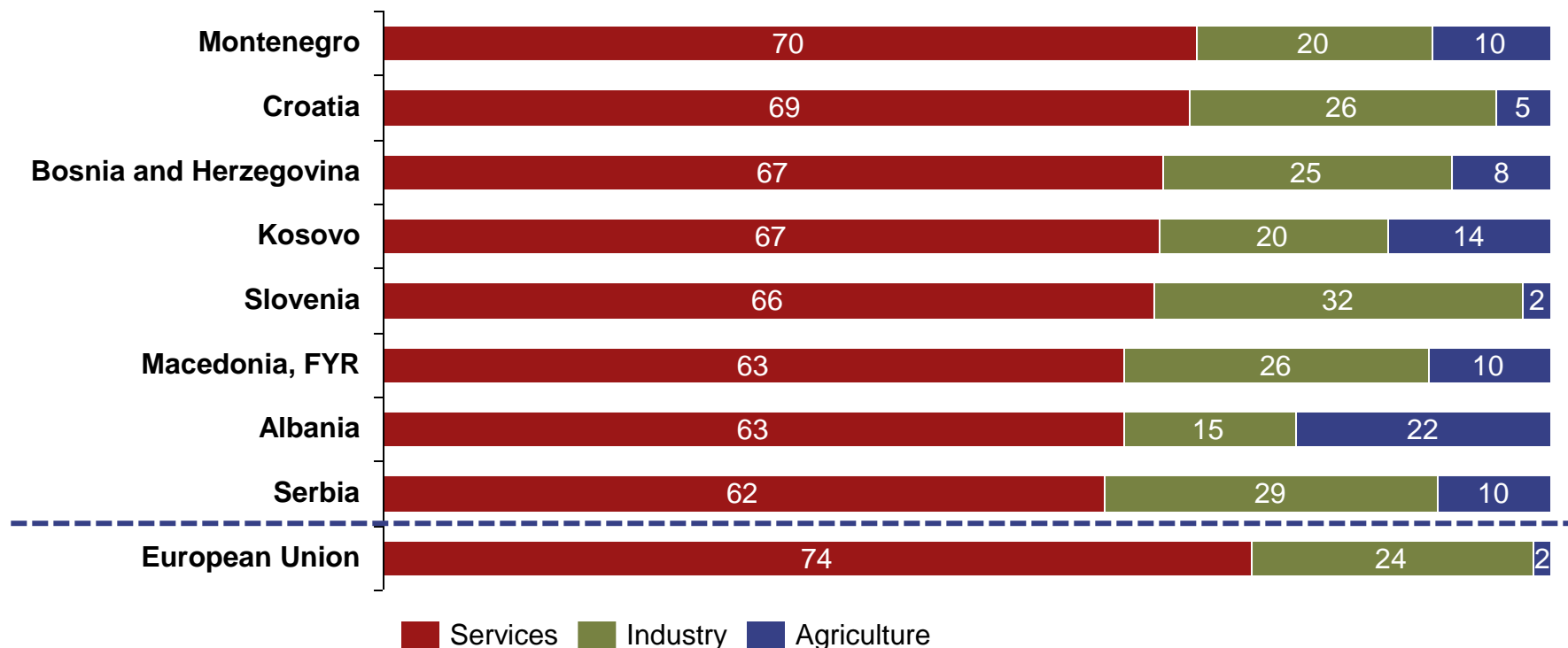


Growth in SEE is higher than in EU and on par with other Eastern European countries

1. Bubble size represents GDP in EUR; Definitions: Black Sea Region: Bulgaria, Romania and Turkey; Baltics: Estonia, Latvia, Lithuania; CEE: Czech Republic, Hungary, Poland and Slovakia
 2. EU bubble size does not reflect accurate GDP due to out of scale size (the actual size of the bubble is 4.5 the size of the presented bubble)
 Source: World Bank

Service sector is the main contributor to GDP in SEE countries

3 GDP structure in SEE countries and EU [value added as % of GDP, 2013¹]

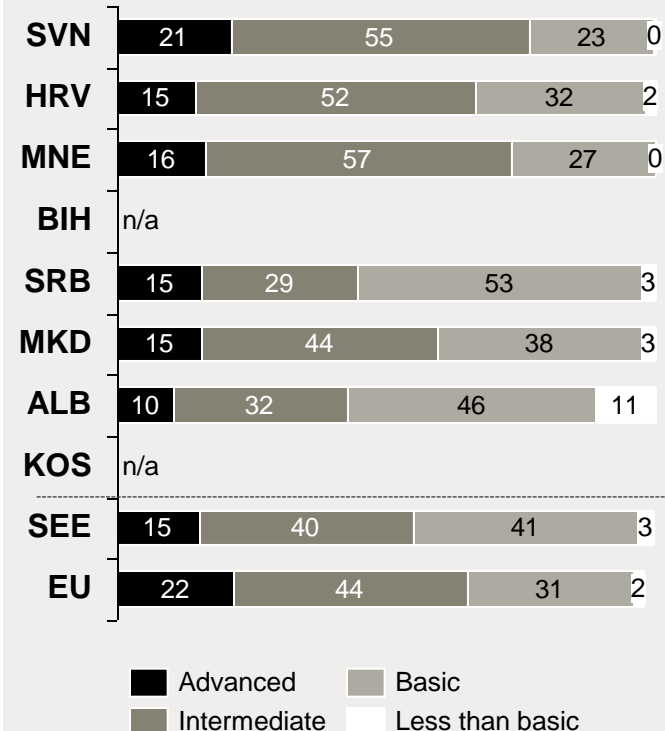


Agriculture still represents relatively large share of GDP in most SEE countries

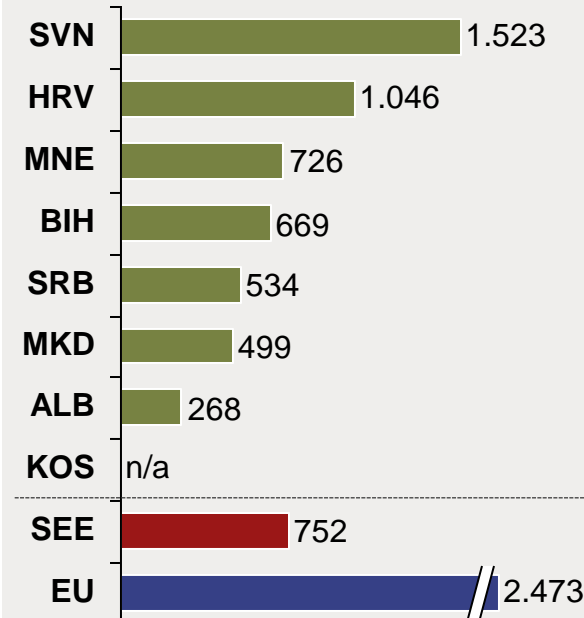
Southeastern Europe holds big potential in cheaper and relatively well educated work force

3 Labor force in Southeastern Europe¹

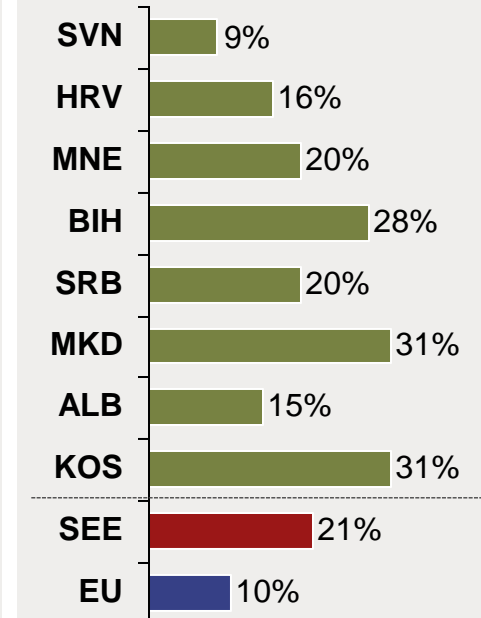
Working-age population by education², 2012 [%]



Average monthly gross wage cost, 2013³ [EUR]



Unemployment rate, 2012 [% of working population]



1. ALB = Albania, BIH = Bosnia and Herzegovina, HRV = Croatia, KOS = Kosovo, MKD = FYR Macedonia, MNE = Montenegro, SRB = Serbia, SVN = Slovenia
 2. Level of education refers to the highest level completed, classified according to the International Standard Classification of Education (ISCED); 3. Albania – 2012 data
 Source: International labor organization, World Bank, CIA fact book, National statistic offices of represented countries and Eurostat (for EU average gross wage cost)

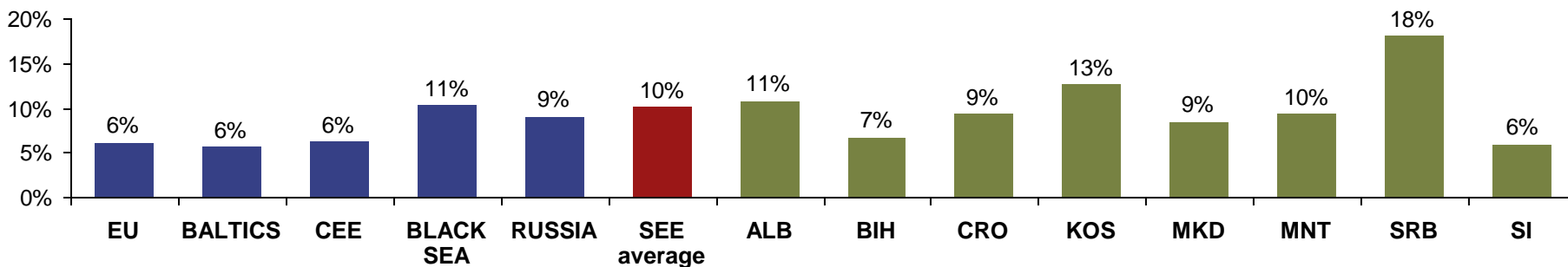
Banks, often foreign, are present, but have high costs of financing – private equity funds stand as solution

4 Banking industry overview

Major banks in three biggest SEE economies, 2012

CROATIA				SERBIA				SLOVENIA			
Bank	Capital group	Country	Market share ¹	Bank	Capital group	Country	Market Share ¹	Bank	Capital Group	Country	Market Share ¹
Zagrebačka Banka	Unicredit	Italy	25,5%	Banca Intesa	Intesa Sanpaolo	Italy	14,5%	NLB	NLB	Slovenia	25,3%
Privredna Banka	Intesa Sanpaolo	Italy	16,6%	Komercijalna Banka	Komercijalna Banka	Serbia	10,8%	NKBM	NKBM	Slovenia	9,8%
Erste Bank	Erste Group	Austria	14%	Unicredit	Unicredit	Italy	7,8%	Abanka	Abanka	Slovenia	7,9%
Hypo Alpe Adria	Hypo Group	Austria	10%	Raiffeisen	Raiffeisen Group	Austria	6,8%	Unicredit	Unicredit	Italy	6,2%
Raiffeisen	Raiffeisen Group	Austria	9,4%	Societe Generale	Societe Generale	France	6,8%	SKB	Societe Generale	France	5,7%

Lending interest rate across regions and countries [%]

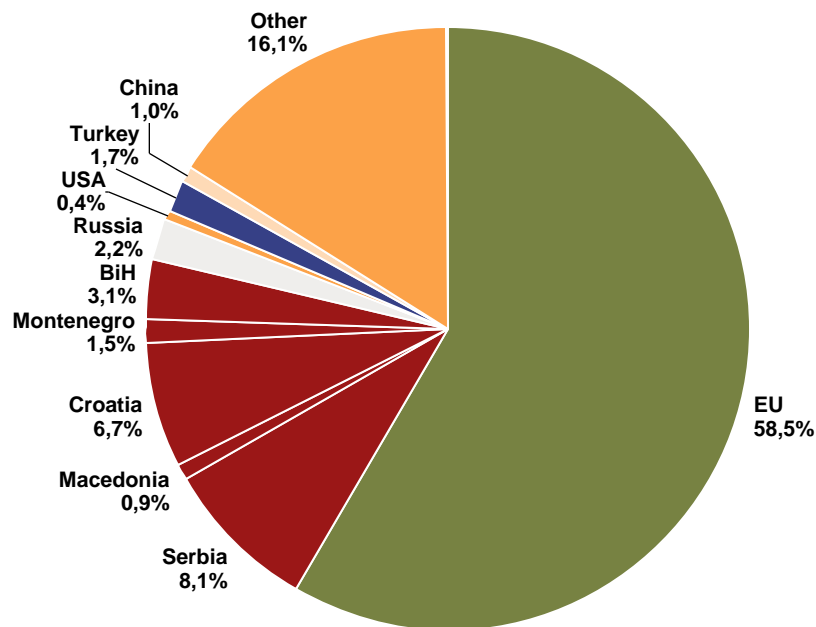


1. Market share based on asset allocation
Source: Central banks of selected countries; World Bank

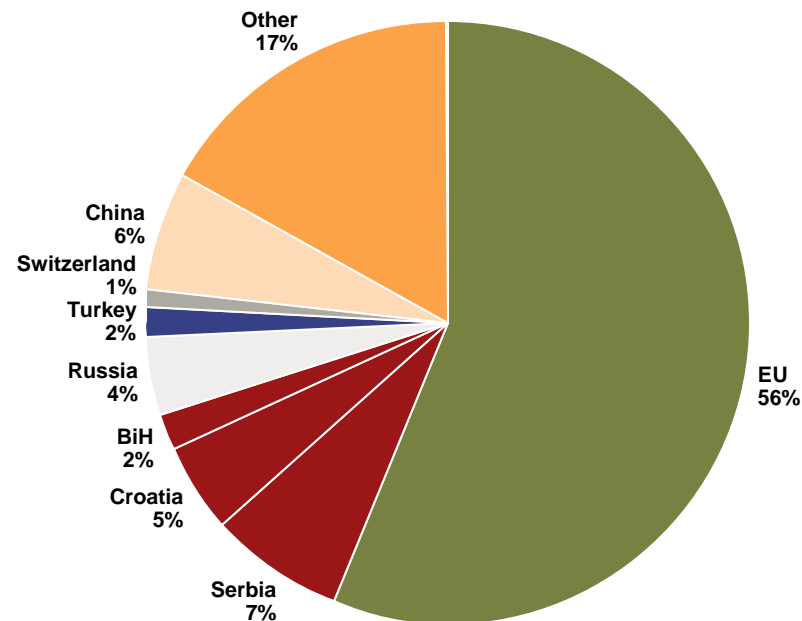
Although SEE countries still rely heavily on their home markets, integration in international trade is increasing

4 Major trade partners of SEE region

Major export partners in 2012 [% of exports]¹



Major import partners in 2012 [% of imports]¹



Slovenia and Croatia have historically good connections with EU and could serve as ambassadors of SEE region for investment and exports in EU. Same can be said for Serbo-Russian relations and relations between Bosnia and Turkey.

1. Excl. Kosovo; Slovenia counted as part of EU; all countries with share of trade below 1% grouped into Other
Source: WTO

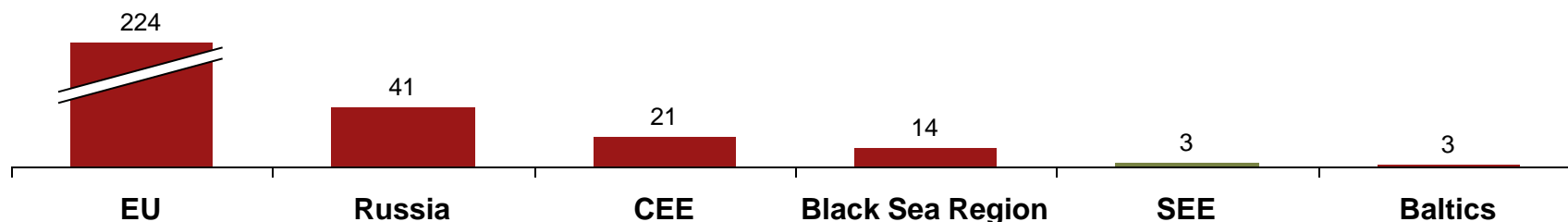
Companies, mostly international, continue investing in the region and could prove crucial in economic integration of SEE

4 Crucial business entries and current foreign direct investment

Largest mergers and acquisitions in SEE since 2002

Date Effective	Target Name	Target Macro Industry	Target Nation	Acquirer Name	Acquirer Nation	Value of Transaction (\$mil)
2006	PLIVA dd	Healthcare	Croatia	Barr Pharmaceuticals Inc (now Teva Pharmaceutical Industries Ltd.)	United States	2.413
2011	Delta Maxi Group	Retail	Serbia	Delhaize Group SA	Belgium	1.292
2006	HVB Splitska Banka dd	Financials	Croatia	Societe Generale SA	France	1.231
2007	Telekom Srpske	Telecommunications	Bosnia	Telekom Srbija Ad	Serbia	852
2002	Lek Sandoz	Healthcare	Slovenia	Novartis International AG	Switzerland	828
2009	NIS	Energy and Power	Serbia	AO Gazprom Neft	Russian Fed	600
2006	Hemofarm AD	Healthcare	Serbia	STADA Arzneimittel AG	Germany	580
2003	INA Industrija Nafta dd	Energy and Power	Croatia	MOL	Hungary	508
2012	Telekom Srbija Ad	Telecommunications	Serbia	Telekom Srbija Ad	Serbia	492
2006	Vojvodjanska Banka ad	Financials	Serbia	National Bank of Greece SA	Greece	456
2008	Mercator dd	Retail	Slovenia	Raishop Holding	Austria	405
2010	Droga Kolinska dd	Consumer Staples	Slovenia	Atlantic Grupa dd	Croatia	325
2013	Mercator dd	Retail	Slovenia	Agrokor dd	Croatia	1.800

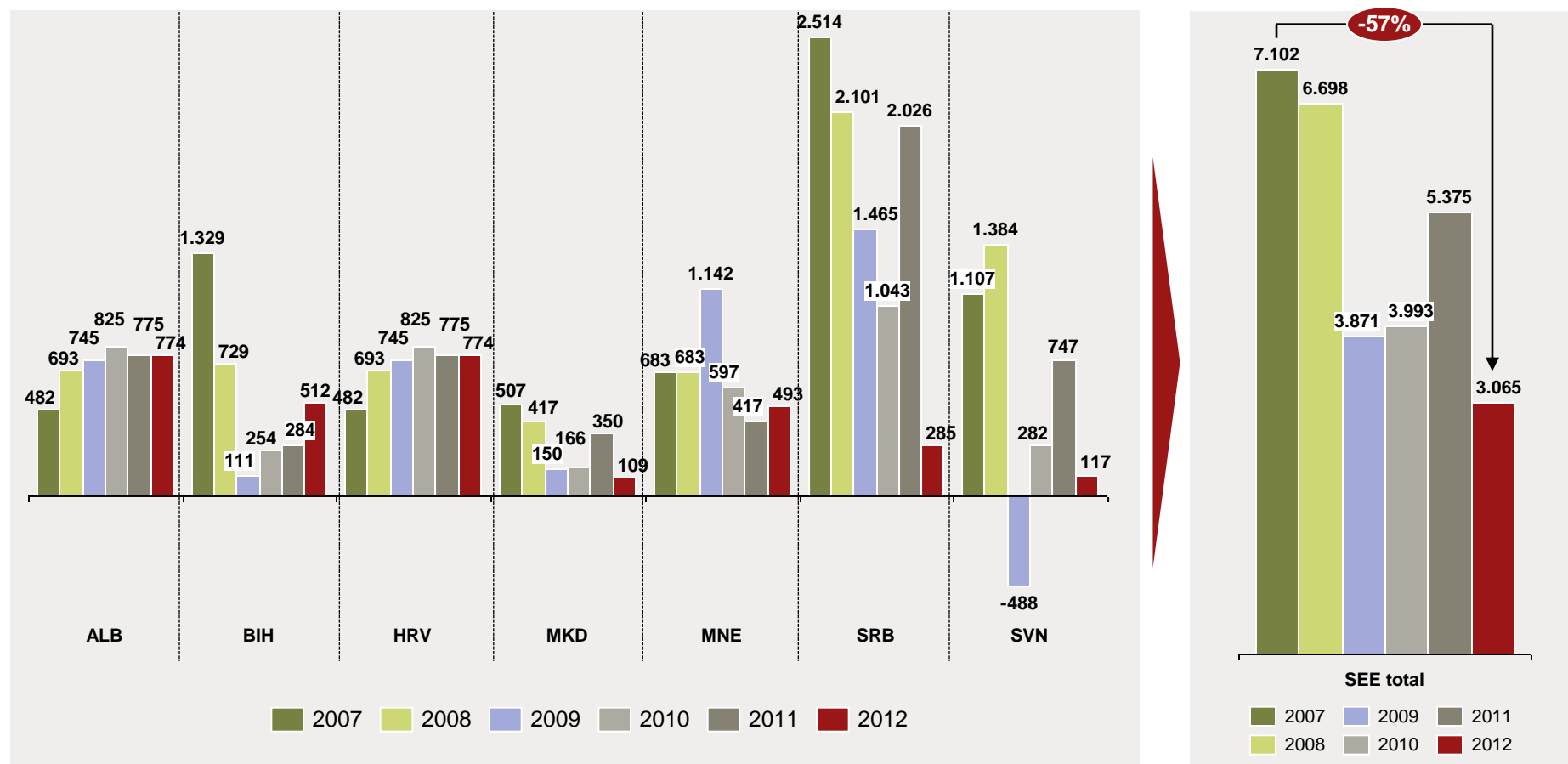
FDI [EUR bn, 2012, net inflow, EUR]



Source: Thomson Reuters (for largest mergers and acquisition, excl. Mercator-Agrokor deal), Bloomberg (for Mercator-Agrokor deal) and Lek Sandoz (for Lek Sandoz – Novartis deal); World bank (net inflow of FDI)

FDI inflows have dropped significantly in most of the countries, resulting in Albania and Croatia becoming largest FDI recipients in 2012

4 FDI inflows [EUR mil], 2007-2012¹



1. ALB = Albania, BIH = Bosnia and Herzegovina, HRV = Croatia, MKD = FYR Macedonia, MNE = Montenegro, SRB = Serbia, SVN = Slovenia; Excl. Kosovo
Source: World Investment Report 2013: Global Value Chains – Investment and Trade for Development

To build on its potential, Southeastern Europe must first overcome its most pressing challenges

5 Overcoming region's most pressing challenges

- Realization that SEE is one region with market size of more than 25 million people and GDP of EUR 153 billion
- Establishment of simplified flow of people and goods by reducing administrative processes for obtaining work permits, lowering import/export duties and modernizing infrastructure
- Adjustment of SEE economies and public administration towards EU standards
- Establishment of joint infrastructure and energy project planning
- Reduction of political risk to enable better country rating and lower financing costs

Speaker's curriculum vitae

**Dr. Ivan Šimek,
Senior Director, A.T. Kearney**



- Over 30 years of experience in business and government sectors as well as in academia and management consulting
- Served as a Member of the first Government of the Republic of Croatia and as Consul General of the Republic of Croatia in Bavaria
- In the period from 2004 - 2013 he held position of Contracting Partner at Roland Berger Strategy Consulting
- Currently Senior Director at A.T. Kearney a one of the leading global management consulting firms
- Profound experience in the region of South East Europe and serves as promotor of European integration process for the region

Academic experience

- MBA, Faculty of Foreign Trade in Zagreb
- PhD, Faculty of Foreign Trade in Zagreb

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