

Albania

Albania's drive in 2007 to implement the reforms required for NATO membership followed the signing of a Stabilization and Association Agreement (SAA) with the European Union (EU) in 2006. The reform drive was rewarded when NATO's Bucharest summit in 2008 extended an invitation to Albania and Croatia to join the western alliance.



Albania's drive in 2007 to implement reforms needed to get NATO membership followed the signing of the Stabilization and Association Agreement (SAA) with the European Union in 2006. The reform drive was rewarded when NATO's Bucharest summit in 2008 extended an invitation to Albania and Croatia to join the western alliance.

Meanwhile, economic problems continue to bedevil the country. Power shortages in the second half of 2007 caused major problems. But they failed to dent an impressive 6 per cent gross domestic product (GDP) growth figure which looks to be matched both this year and in 2009. The power cuts have prompted new energy projects, which together with planned privatisations will make 2008 a good year for Albania.

In 2007, inflation stayed within the Bank of Albania's target of 2.9 per cent but, despite stringent monetary policies, the figure is expected to hit 4 per cent both this year and in 2009. Meanwhile, unemployment fell to 13.2 per cent in 2007.

Since coming to power in 2005, Albania has turned its attention to sale of state owned companies, public private partnerships (PPP) and green field projects to attract foreign investment. Several reforms have been brought in to make Albania more investor friendly. The major change came in fiscal policy, where parliament approved a new ten per cent corporate tax, starting in 2008, compared to the previous tax level of twenty per cent.

The completion of the privatization of Albtelecom (a process started few years ago) in 2007 became Albania's major privatisation of the year. The privatisation package included a license for the country's third mobile operator, which

had been held by Albtelecom. This year is expected to be rich in sales of state owned assets including the Power Distribution Company (OSSH), the Insurance Institute (INSIG) and the state shares in AMC (one of the three current mobile operators), while the contract for the sale of the Oil Refining and Distribution Company (ARMO) is already signed. The sale of these companies should provide substantial revenues for the state budget.

Power cuts in 2007 have pushed energy projects to the top of the government's agenda. PPP projects are being negotiated with the government for the construction and operation of new hydro power installations on the country's main rivers. These PPP projects also covered the operations of potential thermal power plants such as Vlora. The government has also lobbied hard to have Albania become part of major international energy routes such as pipelines.

Nevertheless, the biggest investment projects are managed by governmental institutions and/or state owned enterprises and funded either through the budget or donor governments or with loans from international financial organizations, such as the World Bank and the European Bank for Reconstruction and Development and European Investment Bank with the focus on infrastructure projects. The major share of the spending is going on the highway linking the port of Durres with Kosovo.

The growth of exports, mainly of minerals such as chrome, was lower than the growth of imports, causing the trade deficit for 2007 to rise. The key drivers of the rise in import costs were the import of electricity during the power crisis and the rise in oil prices.

Macroeconomic data - 2007

GDP Per Capita PPP (EUR) **6 141**

GDP growth rate **5,5%**

Annual average inflation rate **2,9%**

Unemployment rate **13,2%**

Population (thousands) **3 152**

The most successful companies in Albania in 2007 were, once again, the two mobile operators, Vodafone and AMC (part of the Cosmote group) which continued to enjoy high sales and high profit margin levels. The Albanian Power Corporation, Albania's largest company by turnover, took a major hit during the power crisis and the subsequent rise in imports had a major impact on its profits. Other high revenue sectors in 2007 were the oil industry (extraction, refining, wholesale, retail), cement production and trading, and mineral extraction (especially chrome). Turnover levels at construction companies suffered when the issuing of construction permits was temporarily suspended. The problem was resolved in 2008 thanks to an agreement between central and local government.

Real estate prices continued to increase in 2007, which made it an attractive field for investment even from foreign companies or foreign individuals, who expect the rising trend of real estate prices to continue in medium term, as happened in several neighbouring countries.

Investors are focusing now not only on apartment projects, but also on office and retail spaces, and also to tourism. Currently the biggest real estate projects going are commercial centers, in Tirana and in its outskirts.

The banking and insurance sectors continued to grow as major financial groups from the European Union acquired stakes in local financial services companies. Lending to the economy by commercial banks increased by 50 percent during 2007. Raiffeisen Bank Albania continued to be the leader in the banking sector thanks to its extended branch network and the deposits that the Austrian bank took over from the former state owned savings bank. The insurance industry saw double digit revenue growth in 2007.

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#	Top 500	Company name	Revenue from sales (mln Euro)	Revenue change %	Net income (mln Euro)	Net income change %	Number of employees
			2007		2007		2007
1	N/A	KESH	252.9	17.4	N/A	N/A	7,351
2	N/A	Vodafone Albania	189.2	10.8	69.0	25.5	359
3	N/A	AMC	177.5	17.4	61.4	22.7	516
4	N/A	Marketing & Distribution	106.8	-15.2	1.9	-9.1	216
5	N/A	Albtelekom	86.9	-13.1	-15.8	-229.2	2,237
6	N/A	Taci&Oil	62.6	18.1	0.9	78.4	16
7	N/A	Global Petroleum	38.7	32.5	0.9	1,589.9	21
8	N/A	Mamidoil-Jetoil	23.1	-0.9	0.7	76.4	17
9	N/A	Coca-Cola Bottling Shqiperia sh.p.k	22.3	26.2	2.1	116.8	N/A
10	N/A	Infosoft System	20.7	44.5	1.4	192.2	101

Bosnia and Herzegovina

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The signing of the SAA will have a positive impact on the economy of BiH, which is not yet a fully independent state, given the special powers wielded by the Office of the High Representative (OHR), which is charged with implementing the 1995 Dayton peace accords. The head of the OHR is also the EU's Special Representative in BiH.

While the OHR struggles with constitutional and political issues, the main influence on economic growth this year is likely to be reduced demand from the country's chief trading partners in the EU and southeastern Europe as a result of the lower growth forecast for the euro zone in 2008 and 2009.

Real gross domestic product (GDP) growth in 2007 reached 6 per cent. This growth is the result of a mixture of a generally favourable external environment and a big increase in private consumption, fuelled by the rapid rise in real wages and consumer

borrowing. Wages rose last year at a rate of 10 per cent, while the inflation rate rose by a mere 1.4 per cent. Bank lending grew by about 30 per cent in 2007. Large energy and road projects will boost construction in coming years, and industry should also pick up, as the leading metals producers, Aluminij Mostar and Mittal Steel Zenica, expand capacity. Private consumption can be expected to continue to grow strongly, from a relatively low base, reflecting a further growth in bank lending and real wages.

Inflation began accelerating towards the end of 2007 and in early 2008, reaching a year on year figure of 8.2 per cent in May as a direct result of high international oil and food prices, as well as strong domestic demand pressures. Rapid growth in wages and bank credit, together with increases in prices controlled by the state contributed to inflationary pressures. Price growth will only partly be held in check by the continued stabilising influence of BiH's currency board arrangement, which was established in June 1998 by fixing the national currency rate to the German mark (and subsequently the euro).

Macroeconomic data - 2007

GDP Per Capita PPP (EUR)	7 533
GDP growth rate	6,0%
Annual average inflation rate	1,4%
Unemployment rate	42,3%
Population (thousands)	3 850

The largest companies in BiH remain those in the telecommunications, power generation and metallurgical sectors. Elektroprivreda BiH, the state-owned power utility company, retained first place among Bosnian companies in 2007, a position which it has held firmly for years. Aluminij Mostar, a steel producer, is currently in the process of being privatised. The company continues to be one of the largest in the country, and has received a number of awards over the years. The privately owned ASA Prevent Grupacija, a holding company with a diverse portfolio including car dealerships, transport services, leasing and insurance, is also ranked among the largest companies in the country. State-

owned BH Telecom is the largest telecommunications group in the country, offering fixed-line, mobile and ISP services. The government recently announced and began implementing plans for its privatisation. Another top company is Mittal Steel Zenica, a steel producer owned by the ArcelorMittal Group.

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#	Top 500	Company name	Revenue from sales (mln Euro)	Revenue change %	Net income (mln Euro)	Net income change %	Number of employees
			2007		2007		2007
1	N/A	JP EP BIH	370,2	3,4	N/A	N/A	5 013
2	N/A	ASA Prevent Grupacija	359,4	46,1	N/A	N/A	3 214
3	N/A	Aluminij	318,9	9,2	N/A	N/A	930
4	N/A	BH Telecom	294,9	0,0	N/A	N/A	3 224
5	N/A	EP RS, Trebinje	240,4	1,0	N/A	N/A	7 848
6	N/A	Mittal Steel Zenica	236,2	N/A	N/A	N/A	N/A

After eighteen months in the European Union (EU), Bulgaria is enjoying strong economic growth. Nevertheless, popular frustration is growing over the wide gap in standards of living and social protection between Bulgaria and the older member states. At the same time, the country has a comparative edge in sectors that are critical for the global economy – energy, transit, food processing and agriculture.



After eighteen months in the European Union (EU), Bulgaria is enjoying strong economic growth. Nevertheless, popular frustration is growing over the wide gap in standards of living and social protection between Bulgaria and the older member states. At the same time, the country has a comparative edge in sectors that are critical for the global economy – energy, transit, food processing and agriculture.

Bulgaria's economy grew by 6,2 per cent in the first quarter of 2008, thanks largely to an expansion in the construction sector and continued growth in industry and services. Preliminary data for the second quarter of 2008 reveal a further improvement in industrial output and retail sales. Moreover, the impact of the global credit squeeze has been moderate, since credit conditions eased private consumption growth in the fourth quarter of 2007.

The share of the private sector in gross value added (GVA) has risen dramatically since 1989 with financial services, tourism and retail leading the way. Banking has become a success story during the past decade. Foreign investors from the banking sector have led the drive to improve the quality of management of local banks and increase their profitability.

Modern distribution and retailing are developing fast. Large international players have entered and transformed the retail market. Both Metro and REWE plan to expand under other brand names. Carrefour (France) and

IKEA (Sweden) are to open new outlets in Bulgaria in 2008. Hypermarket and discount-store formats are expected to see especially strong growth in the coming years.

While the ratio of state foreign debt to gross domestic product has dwindled to 15 per cent, private foreign debt has surged, along with levels of household indebtedness. Although the debt-to-GDP ratio is well below the EU average, volatile global markets leave no room for complacency, given Bulgaria's high current account deficit and the prospect of further debt growth. Rigorous fiscal policies have yielded unprecedented budget surpluses of as much as 5 per cent of GDP. But there is a growing need for long-term budget planning, transparent budget-allocation procedures and full convergence of monetary and fiscal policies.

Net foreign direct investment (FDI) coverage of the current account balance remained relatively low at 33.7 per cent for the first four months of this year. However, it is quite likely that FDI coverage will improve substantially in the course of 2008 and exceed 50 per cent by the end of 2008.

Information and telecommunications technologies continued to expand strongly in 2007, due mainly to cell-phone operators and internet services. Sales reports for the first half of the year indicate that the market of wireless telecom services grew by nearly 20 per cent in nominal value terms in 2007, to more than EUR 1.1 billion. The cell-phone penetration rate is estimated

Macroeconomic data - 2007

GDP Per Capita PPP (EUR)	11 384
GDP growth rate	6,2%
Annual average inflation rate	7,6%
Unemployment rate	6,9%
Population (thousands)	7 679

at 132.8 per cent as of the end of December compared to 105.9 per cent a year earlier. This is one of the highest cell-phone usage ratios in Europe.

The closure of the two smaller nuclear power units in Kozloduy at the end of last year has adversely affected the power sector, but the main reason for its weak performance is linked to regulatory setbacks and slow progress on a number of state-run projects for the redevelopment of power-generation facilities and building new capacity.

In contrast to the setbacks in the electricity sector, recent developments in the field of natural gas, as well as investments in bio-fuel production, look quite encouraging. Russia's Gazprom and Italy's ENI have proposed a large-scale transit project through the Black Sea and Bulgarian territory that would bypass alternative routes in Turkey to southern and southeastern Europe. The state-run natural gas utility, Bulgargaz, seems in a good position to take part in the project, although it may cut transit

volumes through its existing pipeline network. New revenues will be shared with a company controlled by Gazprom.

Bulgaria has one of the lowest rates of taxation of assets and income. The corporate income-tax rate was cut to 10 per cent at the beginning of 2007. This not only attracts high FDI levels, but offers an incentive to local companies to be more open to the tax authorities about their business.

EU funds will help kick-start key infrastructure projects, while close monitoring by the EU and the local authorities responsible for projects will strengthen anti-corruption measures. The current delay in the distribution of the funding, however, means that Bulgaria is likely to remain a net financial contributor to the EU budget in 2008.

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	# Top 500	Company name	Revenue from sales (mln Euro)	Revenue change %	Net income (mln Euro)	Net income change %	Number of employees
			2007		2007		2007
1	29	Lukoil Neftochim	2 877,1	2,7	52,9	527,1	4 776
2	71	Lukoil Bulgaria	1 861,1	10,3	16,5	-50,7	1 700
3	124	NEK	1 236,9	11,4	20,1	-20,9	7 036
4	142	Cumerio Med	1 133,3	-12,4	N/A	N/A	830
5	258	Petrol	707,5	2,6	-16,8	-428,9	2 783
6	285	Mobiltel	642,7	10,1	N/A	N/A	N/A
7	328	OMV	572,7	21,4	8,1	-7,2	N/A
8	363	BTC	521,8	1,2	59,3	-12,3	N/A
9	381	Kremikovtsi	506,4	10,5	-23,3	83,9	5 230
10	425	Cez Electro	465,5	1 200,7	N/A	N/A	N/A

Croatia is stepping up its efforts to complete European Union (EU) membership negotiations by 2009 even as uncertainty inside the EU about the enlargement continues.

Croatia is stepping up its efforts to complete European Union (EU) membership negotiations by 2009 even as uncertainty inside the EU about the enlargement continues. Parliamentary elections in November 2007 saw the remaining in power of the, pro European, centrist Croat Democratic Union (HDZ) led by prime minister Ivo Sanader. The HDZ currently leads a coalition government with the Croatian Peasant Party (HSS) as its main partner.

The elections came in a year in which real gross domestic product (GDP) growth reached 5.7 per cent, primarily thanks to good results at the beginning of the year. However a slowdown in the rise of real GDP started towards the end of the year and this trend continued into 2008. The largest contribution to GDP growth came from personal consumption which rose by 6.2 per cent and investments which grew by 6.5 per cent. Unemployment remained stubbornly high at 11.8 per cent however.

It can be expected that the real GDP growth this year will be hindered by inflation which reached 2.9 per cent last year. Also deteriorating economic conditions in Croatia's main export markets such as Italy and Germany will hurt sales abroad. Credit conditions are tightening following the imposition of a restrictive monetary policy by the Croatian National Bank and as a result of the global credit crunch.

Inflationary pressure mounted in 2008 as prices of commodities such as oil and food grew, starting in the last quarter of last year. However, the consumer price index still shows a lower level of inflation than in most of the other countries in the region. This is a consequence of having a stable national currency,

The Zagreb Stock Exchange, the national stock market, is one of the largest by capitalization in the Central European region. As of 31 December 2007 the stock capitalization amounted to EUR 48.1 billion, while the total capitalization amounted to more than EUR 53.8 billion. Overall, there were seven public offerings in 2007, with a total value of over EUR 1.2 billion. The Zagreb Stock Exchange has intensified regional cooperation with stock exchanges in Slovenia and Serbia to make a common blue chip index with Dow Jones.

The largest company by revenues in Croatia is INA, an oil refining and retail group which has held the undisputed number one position over the past few years. Agrokor is in second place with the largest nominal revenue growth among top companies in Croatia. Agrokor is a holding company comprising various horizontally and vertically integrated units, dealing in areas such as retail, food and beverage production and media distribution. The largest net profits in 2007 were reported by the HT group, the former monopoly



Macroeconomic data - 2007

GDP Per Capita PPP (EUR)	15 123
GDP growth rate	5,7%
Annual average inflation rates	2,9%
Unemployment rate	11,8%
Population (thousands)	4 441

telecom operator now controlled by Deutsche Telekom. The HT group provides mobile phone services through its T-Mobile division, which is one of the largest companies in the country. It also offers fixed-line operations, internet access and IP television.

It is worth noting that most of the top 10 companies in the ranking are in the private sector; only 3 companies have the state as a majority owner. The three leading sectors are energy and resources, consumer business and telecommunications.

The largest bank by assets is Zagrebacka Banka (part of the Unicredit Group), with the main competitor being Privredna banka Zagreb (part of Intesa Sanpaolo). These two banks held a combined

market share of about 41.2 per cent in mid 2007. The banking sector in general is considered to be competitive and stable, with more than 95 per cent of the banks (by total assets) owned by international groups.

The market leader in insurance is Croatia Osiguranje, a state owned company. It has an almost three times larger written premium than Allianz Osiguranje, which is in second place. The third and fourth largest insurance companies are part of the Agram financial group.

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	# Top 500	Company name	Revenue from sales (mln Euro)	Revenue change %	Net income (mln Euro)	Net income change %	Number of employees
			2007		2007		2007
1	17	INA Group	3 523,4	10,1	118,7	-1,6	25 978
2	32	Agrokor	2 821,5	37,1	61,9	144,1	28 930
3	103	Konzum	1 354,6	10,2	30,6	69,8	11 138
4	113	HEP Group	1 284,8	-0,4	3,5	-89,3	14 269
5	129	HT	1 204,7	2,2	336,8	11,4	6 724
6	260	Pliva	699,9	-9,9	95,8	459,9	6 137
7	318	T-mobile	588,7	5,7	144,1	8,5	1 051
8	360	Hrvatske Željeznice	523,4	-0,7	0,0	-100,0	13 527
9	391	VIPnet	495,8	4,4	109,9	16,5	1 050
10	418	HEP-proizvodnja	474,1	9,5	-15,2	-207,1	2 344

Czech Republic

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The new conservative Czech government, led by the Civic Democrats (ODS), was elected in a closely-run election in mid-2006 and finally won a decisive vote of confidence in parliament at the start of 2007, albeit with a wafer-thin majority. ODS formed a government coalition with the Christian Democrats (KDU-CSL) and the Green Party (SZ). The new government moved to reduce personal income-tax rates from the previous 12-32 per cent range to a single flat rate of 15 per cent. This was offset by an increase in the reduced VAT rate from 5 per cent to 9 per cent, as well as a rise in excise duty on tobacco and alcohol and new environmental taxes. Changes in the healthcare system included the introduction of a fee for doctors' visits and hospital stays, as well as increased charges for medicine. The government has yet to name a date for adopting the euro.

Various external as well as internal factors contributed to the doubling of inflation from 3 per cent in 2007 to a forecast 6.8 per cent this year. However, this is likely to be a short-term jump and inflation of about 3 per cent is expected next year. The sharp rise in prices has hit consumer spending and, in combination with western Europe's slowdown, has resulted in a drop in growth from 6.5 per cent last year to a predicted 4.5 per cent in 2008. Even though the mortgage and loan crisis has not had a direct impact on the Czech financial system, real-estate prices are more volatile and banks are tightening their lending policies. However, thanks to continuing public investment in infrastructure as well as demand for residential housing, the construction industry continues to grow. The construction boom is also one of the reasons why Skanska CZ and Metrostav have moved into the Czech Republic's top 25 companies.

The country's population is ageing rapidly, with the first signs of the burden of pension costs on the working population expected to appear in 2012. Nevertheless, the Czech population has been growing recently, thanks both to a baby boom and to immigration from Slovakia, Ukraine and Vietnam. Despite

this short-term, positive development, the Czech Republic must reform its pay-as-you-go pension system soon if it is to avoid critical problems in the future.

With unemployment at a low 5.3 per cent in 2007 and an expected further decline this year, the challenge facing the government is how to increase the labour force, which it plans to do by raising the real retirement age to over 63 years of age and tightening social security provisions. At the same time, a reform of the education system is needed to improve employee skills.

Meanwhile, the profits of industrial companies and financial institutions, as well as personal income, have also been rising considerably. Škoda Auto, a member of the Volkswagen Group, has increased its sales by 11,3 per cent and remains the largest domestic company as well as exporter in the Czech Republic. The country has become one of the major producers and exporters of automobiles and car components in Europe. Toyota Peugeot Citroën Automobile (TPCA), a local joint venture between the Japanese and the French vehicle manufacturers, is another producer.

Even though 2007 was only the second year of production, TPCA reached ninth place in the Czech top 25 companies ratings in terms of sales revenue. South Korea's Hyundai, another automobile producer, began construction of a plant last year. As a result, the car-parts producers represented by Bosch Diesel and Barum Continental maintained their positions in the Czech top 25 rankings. Thanks to strong demand from the construction and automotive industries and the global boom, steel companies (Moravia Steel, Arcelor Mittal Ostrava and Trinecke Zelezarny) have also been growing. Strong exports, dynamic expansion through acquisitions and growth in energy prices have put CEZ, the country's largest electricity company, in second place in the rankings. Other utilities are represented by RWE Transgas (gas), OKD (coal-mining) and by oil and petrochemical processing and

Macroeconomic data - 2007

GDP Per Capita PPP (EUR)	24 338
GDP growth rate	6,5%
Annual average inflation rate	3,0%
Unemployment rate	5,3%
Population (thousands)	10 287

distribution companies such as Unipetrol, Cepro, OMV and Shell.

The electronics industry is represented by Taiwan's Foxconn, which plans further expansion in the near future, and Panasonic AVC Networks. Siemens improved its position through its diversified range of products, which include transportation, measurement and control equipment. The food industry, represented by Agrofert Holdings and partially also by the retail stores Makro Cash and Carry, Kaufland, Tesco and Ahold, is growing in importance. However, even if the large retailers are well-represented because of their growing turnover, the industry will struggle to generate adequate profits. Telefónica O2 and T-Mobile represent the strong telecommunications industry.

Transport is represented in the rankings of the largest Czech companies by the state-owned railway, Ceske drahy. 2007 was a year of economic growth, with the highest standards of living since the Czech Republic was established in 1993. Much of the credit for this goes to foreign investments which have come on stream during the past two or three years and have had a considerable impact on exports, growth, employment and personal incomes. Strong demand from these big investors is also helping mid-size Czech companies to expand.

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	# Top 500	Company name	Revenue from sales (mln Euro) 2007	Revenue change %	Net income (mln Euro) 2007	Net income change %	Number of employees 2007
1	3	Škoda Auto	7 997,83	11,3	575,86	47,5	29 141
2	5	ČEZ	6 289,78	19,5	1 540,86	51,8	6 472
3	22	Unipetrol	3 198,83	-3,3	46,03	-23,0	6 820
4	26	Foxconn	3 043,77	19,4	1,63	-92,9	3 000
5	27	Agrofert Holding	3 004,49	19,3	133,76	-0,2	172
6	31	RWE Transgas	2 830,72	-5,7	461,24	59,6	305
7	37	ČEZ Prodej	2 524,15	4,3	73,70	123,3	N/A
8	49	Telefónica O2	2 277,05	5,3	374,22	32,2	8 609
9	72	TPCA	1 847,89	6,0	36,00	-25,5	3 564
10	77	ArcelorMittal	1 660,97	-2,6	340,06	116,2	7 450
11	80	Moravia Steel	1 627,21	14,5	223,05	44,1	254
12	81	Barum Continental	1 609,10	14,1	69,00	26,7	4 500
13	86	Čepro	1 564,87	31,3	12,24	485,7	N/A
14	88	Panasonic Czech	1 552,41	N/A	N/A	N/A	N/A
15	93	Třinecké Železářny	1 419,56	14,6	149,57	51,6	5 400
16	94	Makro Cash & Carry	1 416,04	13,6	N/A	N/A	3 297
17	95	Ahold Czech Republic	1 415,78	11,4	-15,63	62,9	13 500
18	96	OKD	1 396,62	13,6	216,98	72,2	15 220
19	98	České dráhy	1 382,31	3,6	-22,05	-40,4	39 678
20	109	Kaufland	1 308,98	42,8	-0,81	N/A	6 390
21	114	Skanska CS	1 274,80	-0,9	46,05	61,3	N/A
22	120	Tesco Stores	1 251,23	39,8	-5,62	-271,8	12 000
23	125	OMV Česká republika	1 227,97	-1,1	6,26	700,6	106
24	127	Shell Czech Republic	1 219,49	7,8	30,59	39,6	248
25	134	PCA Logistika	1 170,17	N/A	N/A	N/A	N/A

Estonia

European Union membership has been positive for Estonia's economy, producing annual growth rates of over 10 per cent for this Baltic country with a population of 1.4 million – one of the smallest in Central Europe.



European Union membership has been positive for Estonia's economy, producing annual growth rates of over 10 per cent for this Baltic country with a population of 1.4 million – one of the smallest in Central Europe. But a hard shock came in the first quarter of 2008, when growth slowed to a mere 0.1 per cent. Growth had been powered by high domestic demand, and the slowdown reflected a corresponding drop in demand at home.

Simple tax policies have become an Estonian trademark. The government pledged to cut the flat-rate personal income tax from 26 per cent in 2004 to 18 per cent in 2011. The aim was to have the same rate for personal income tax and VAT. That promise came before the country was hit hard by accelerating inflation, which started at the beginning of 2008. A reduction in tax would mean that people would be left with more money to spend in each successive year, and so early in 2008 the government began to reconsider the move while waiting for prices to stabilise.

While the 21 per cent corporate tax rate in 2008 is the same as personal income tax, it is levied only on distributed profits, while private stock-market investors have to pay the full rate on realised profit, despite having been losing money recently. In 2007, the Tallinn stock index declined by 13 per cent, while by mid-July 2008 the total fall had reached 41 per cent of the

previous year's January level. And it is still falling.

Even though the banking sector has been suffering from a collapsing real-estate market and the general economic slowdown, Swedbank purchased Hansapank, which is still regarded as Estonia's crown jewel. Hansapank is also one of the few businesses in Estonia which can be compared in size to other Central European companies or banks. This is not surprising, considering Hansapank's dominant position in the Baltic banking market.

Of the 25 largest companies in the CE Top 500 in Estonia, seven are listed on the Tallinn Stock Exchange, three are state-held entities – the energy company, the railways and the port – another four are still locally owned, and the rest are the subsidiaries or associated companies of multinationals.

The largest Estonian company is Tallink, a passenger-cruising business. It is a rare example in Estonia of a company which has actually invested abroad by acquiring a part of the Silja Line, a well-known Finnish competitor, in 2006, rather than being bought out itself by an international rival. The transaction more than doubled the company's revenue. The other top 25 companies which have successfully expanded their operations outside Estonia include the Olympic

Macroeconomic data - 2007

GDP Per Capita PPP (EUR)	21 062
GDP growth rate	7,1%
Annual average inflation rate	6,7%
Unemployment rate	4,7%
Population (thousands)	1 342

Entertainment Group, a casino business, and Arco Vara, a real-estate company. Both are listed in Tallinn, while the Olympic Entertainment Group is also listed on the Warsaw Stock Exchange.

Estonian Railways, which ranks in the second half of the list, was privatised in 2001 and re-nationalised again in early 2007 after a heated political debate. This company was hardest hit when the government of Estonia decided to remove the Soviet war memorial in Tallinn in April 2007. The decision sparked angry demonstrations by Estonia's Russian-speaking minority, and Russia decided to withdraw Russian transit traffic from Estonia in reprisal. It is debatable whether the removal was used merely as an excuse by Russia, which is in the process of opening new transit routes through its own territory. No matter what the actual reason was, Estonian Railways is facing major challenges directly after its own re-nationalisation.

The Estonian Energy company, ranking as the second largest in the country, might be one of the next state-owned companies to be listed in Tallinn, despite the current mood of pessimism in the stock market. Currently there are 18 companies listed, but some of them have limited liquidity. It is possible we may see some de-listings in the future. Once investor confidence returns, though, it is likely we will see the flotation of some new companies.

Even though the combined increase in net revenue of the largest companies was around 17 per cent, there are several firms whose revenue actually fell in 2007. These included infrastructure companies such as Estonian Railways and Tallinn Port, as well as several construction companies.

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	# Top 500	Company name	Revenue from sales	Revenue change %	Net income	Net income change %	Number of employees
			(mIn Euro)		(mIn Euro)		
			2007		2007		2007
1	228	Tallink	760,8	88,0	67,1	-29,4	6 481
2	326	Eesti Energia	574,4	19,3	39,3	-76,7	8 501
3	N/A	Telekom	400,2	8,6	96,6	15,0	2 327
4	N/A	Kaubamaja	376,6	39,0	26,3	49,6	2 833
5	N/A	Mazeikiu Nafta Trading House	370,9	13,7	2,2	13,1	10
6	N/A	Rimi	368,8	5,5	3,4	16,4	2 420
7	N/A	Silberauto	340,9	33,1	14,9	7,1	759
8	N/A	BLRT	295,1	32,1	32,4	26,2	130
9	N/A	Merko	250,3	21,8	35,8	-5,2	1 100
10	N/A	Toyota Baltic	216,2	61,1	7,4	181,9	11

The Hungarian government's austerity measures introduced in the second half of 2006 which were designed to cut the country's alarming budget deficit explains Hungary's modest gross domestic product (GDP) growth of 1.3 per cent in 2007 accompanied by a high, 7.9 per cent average inflation rate for the year.



The Hungarian government introduced austerity measures in the second half of 2006 in order to cut the country's alarming budget deficit. This largely explains Hungary's modest gross domestic product (GDP) growth of 1.3 per cent in 2007, which was accompanied by a high, 7.9 per cent average inflation rate for the year. Nevertheless, on aggregate, the largest Hungarian companies on the CE Top 500 list managed to achieve better results than their country as a whole, thanks to growing, export-driven, industrial output.

Thus the majority of the Hungarian companies on the list increased sales in euro terms in 2007 from 2006. Altogether, the combined sales of the 60 companies on the list grew by over 10 per cent in euro terms, which shows significantly stronger growth even in real terms than that of the overall economy.

This phenomenon is due to the fact that many of the Hungarian companies in the top 500 are either less exposed to falling domestic demand, such as the telecoms sector or pharmaceuticals – the latter being a strong exporter – or that they have benefited from last year's global economic trends and domestic policy changes. These were principally the energy sector – primarily the energy distribution companies with strong retail exposure – and agribusiness. Large Hungarian energy retail companies reported a respectable growth in sales, mainly because of

big increases in the government-controlled price paid for energy by consumers. Interestingly, MOL, the national oil company and Hungary's largest enterprise, saw sales fall by over 5 per cent in euro terms. This was largely for reasons specific to the company, which sold its gas business and saw a drop in carbon hydrogen exploration. Some energy wholesalers, which were not affected by the retail energy price rises, also saw a decline in sales because of the mild winter and a consequent fall in energy consumption.

Sales growth in the agribusiness came from the sharp global increase in agricultural prices.

There were industries, however, where even the largest players were hard hit by the strong downturn in the Hungarian economy and the negative trends in the world economy. The real estate, construction and building sectors were badly affected. The largest Hungarian company in this sector in terms of sales, Strabag Építő Zrt., which made it to the regional top 500 list, saw a drop in sales of over 20 per cent. This sector's poor performance was a result of cuts in public spending on roads and other large scale infrastructure projects. The real estate crisis may also have had an effect on this sector, even in Hungary.

There were a few surprises, however. While the volume of retail sales showed a 3 per cent decline last year, some of the sector's largest players,

Macroeconomic data - 2007

GDP Per Capita PPP (EUR)	19 213
GDP growth rate	1,3%
Annual average inflation rates	7,9%
Unemployment rate	7,4%
Population (thousands)	10 066

such as Spar Magyarország and Penny-Market Kereskedelmi Kft (both on the CE Top 500 list), recorded double-digit sales growth between 2006 and 2007. This reflected the dynamic expansion of some retailers, a consolidation in the sector and a sharp increase in consumer prices.

The growth of Hungary's largest banks, especially in their overall lending activity, was also unexpected, given the stagnating domestic economy, rising interest rates and the sector's global problems that began in 2007. At the same time, many loans in Hungary are denominated in foreign currencies, and these were not affected by the increase in Hungarian Forint (HUF) interest rate hikes. Also, the negative effect of the global credit

crisis only started to be felt in the third quarter of last year. It remains to be seen how this will work through to the banking sector's 2008 results. The majority of the large Hungarian companies in the top 500 surmounted the country's stringent economic conditions in 2007. It is not yet clear, however, how they will cope with the global economic slowdown, rising energy prices, tougher credit conditions, the further strengthening of the forint, which could hurt exporters, and the modest growth rate of the Hungarian economy.

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	# Top 500	Company name	Revenue from sales	Revenue change %	Net income	Net income change %	Number of employees
			(mln Euro)		(mln Euro)		
			2007		2007		2007
1	2	MOL	10 321,7	-5,7	1 044,1	-18,2	14 500
2	6	Audi Hungária	5 908,3	24,3	560,7	39,3	5 563
3	13	Nokia	N/A	N/A	N/A	N/A	N/A
4	23	E.ON Földgázkereskedő	3 119,7	-0,1	201,8	215,0	72
5	28	Philips Magyarország	2 975,4	31,1	N/A	N/A	1 565
6	33	Magyar Telekom	2 692,5	6,0	290,7	-12,2	11 723
7	35	GE Hungary	2 557,5	6,8	N/A	N/A	13 835
8	39	MVM	2 498,1	31,4	144,5	1 994,2	8 968
9	48	E.On Hungária	2 292,0	22,7	101,9	33,3	5 004
10	52	Suzuki	2 219,1	41,2	42,0	94,0	5 928

2007 saw Latvia overtake the world economy with its very own 'credit crunch' before the rest of the world was hit by the global crisis. This affected growth figures, which had been underpinned by a booming real estate market and a bank loan funded construction sector. Overall growth for the year was still impressive at 10.3 per cent, but this, nevertheless, marked a decline from the 12 per cent growth of the year before.



2007 saw Latvia overtake the world economy with its very own 'credit crunch' before the rest of the world was hit by the global crisis. This affected growth figures, which had been underpinned by a booming real estate market and a bank loan funded construction sector. Overall growth for the year was still impressive at 10.3 per cent, but this, nevertheless, marked a decline from the 12 per cent growth of the year before. However, the slowdown failed to ease inflation, which reached 10.1 per cent by the end of the year. This was mainly driven by wages, which grew by an average 20 per cent in 2007, and mounting raw material costs.

The economic roller coaster ride led to growing popular opposition to the ruling coalition and its most prominent party, the conservative People's Party. As a result, Aigars Kalvitis, the People Party's prime minister, was replaced in December 2007 by Ivars Godmanis, one of Latvia's most experienced politicians, from the Latvian Way, a liberal, free-market party in the coalition. The reshuffle left the overall composition of the ruling coalition unchanged. However, it remains fragile and political instability is expected to continue, at least until local elections next spring and parliamentary elections in the autumn of 2010.

All in all, the country entered 2008 in a gloomy mood and, so far, the pessimism seems justified. Annual inflation reached 17.7 per cent in June and economic growth slowed to 3.3

per cent in the first quarter from 8.1 per cent in the same period last year.

These changes have yet to affect the list of Latvia's largest businesses relative to 2006. Almost all of the companies concentrate primarily on the domestic market, with the exception of Elko, which is one of the largest IT equipment wholesale companies in Central Europe, and Liepajas Metalurgs, which sells most of its steel products abroad. Latvia's fast economic growth helped most of the largest companies to gain ground on their Central European rivals – Latvenergo, the energy producer, climbed from 400th to 370th place, while VP, a consumer retail group, from 405th to 382nd place.

Two companies on the list, Rimi and VP Group, clearly show that one of the key drivers in Latvia's economic boom has been domestic demand. These are the largest retail chains in the country, and together they form a virtual duopoly. Both have been growing very fast, initially through rapid expansion across the country, while 2007 saw rising prices swell their revenue figures. It is likely that the next few years will see more modest growth rates and mounting pressure on margins as consumer incomes shrink and purchases are trimmed. At the same time, the retailers' costs will grow in line with inflation.

Latvia's economic boom is reflected in the banking sector's growth rates. Assets in the 10 largest banks grew

Macroeconomic data - 2007

GDP Per Capita PPP (EUR)	17 457
GDP growth rate	10,3%
Annual average inflation rate	10,1%
Unemployment rate	6,0%
Population (thousands)	2 281

by 44 per cent on an annual basis. But this sector is also bracing itself for a rough ride, as concern grows at the deteriorating quality of loan portfolios and a sharp reduction in lending activity hurts revenues. At the same time, high payroll costs are set to become an ever heavier burden, as financial sector salaries are among the highest in the country.

The remaining companies on the list of largest firms represent different parts of the infrastructure vital for Latvian business. Most of them are closely related to the oil and gas industry, and their business volume is growing in line with oil prices and growing physical volumes. Statoil and Mazeiku Nafta, for example, are part of a fuel distribution chain to retail consumers. Oil Logistic serves the flow of oil between Latvian ports and Belarus, while the local energy monopolies, Latvenergo (power generation and distribution) and Latvijas Gāze (natural gas distribution), which are regulated, can increase their tariffs only on the basis of growing energy costs and operating activities.

A number of the largest Latvian companies are still owned by the government, such as Latvenergo and Latvijas Dzelzceļš (Latvian Railways). It is unlikely these will be privatised in the near future, as the sale would need a very strong government capable of withstanding fierce public resistance, based mainly on concerns that the deals might be corrupt. These companies, together with the Lattelcom, a fixed-line telecommunications company, represent the last significant businesses owned by the state. The rest of the economy is almost all in private hands.

Indeed, most of the largest Latvian businesses belong to multinational groups. This illustrates the trend in Latvia's corporate ownership structure – the number of locally owned companies is falling each year, as more and more companies are bought by foreign buyers.

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	# Top 500	Company name	Revenue from sales (mln Euro)	Revenue change %	Net income (mln Euro)	Net income change %	Number of employees
			2007		2007		2007
1	234	Elko	747,0	47,2	23,4	14,3	350
2	334	Rimi	565,2	28,5	5,0	327,5	4 907
3	370	Latvenergo	514,6	23,8	13,4	-60,8	5 353
4	382	VP Group	504,2	21,9	20,4	157,2	6 279
5	388	Oil Logistic	498,6	138,7	0,9	-3,8	18
6	N/A	Statoil	403,4	22,7	11,8	80,9	880
7	N/A	Mažeiku Nafta	394,7	50,2	2,4	33,9	12
8	N/A	Latvijas Dzelzceļš	373,5	28,6	40,3	893,3	13 620
9	N/A	Latvijas gāze AS	340,7	31,3	45,9	55,2	1 340
10	N/A	Liepājas metalurģs	335,0	15,1	24,5	78,4	3 102

Lithuania

Lithuania has taken full advantage of its membership in the European Union (EU) to record one of the highest growth rates in the world. However, the global slowdown and inflationary pressures in this Baltic country of 3.4 million have increased the chances of a decline in economic performance.



Lithuania has taken full advantage of its membership in the European Union (EU) to record one of the highest growth rates in the world. However, the global slowdown and inflationary pressures in this Baltic country of 3.4 million have increased the chances of a decline in economic performance.

Gross Domestic Product (GDP) growth for this year and 2009 is set to reach 5-6 per cent, but analysts are nevertheless painting a modest picture of the economy's prospects. After more than a decade of relatively stable prices, inflation is expected to leap back to double-digit figures in 2008.

The greatest challenge facing the coalition government is to combat inflation, spurred by the growth in the cost of energy and food as well as excise duties. As the government is unable to influence commodity prices, fiscal policy remains its main weapon in the fight against rising prices. However, decisions taken recently to link minimum wages and welfare payments to inflation could well lead to a price spiral.

High inflation means that Lithuania will find it difficult to join the euro zone before 2012. Moreover, price rises may lead to stagflation as purchasing power is cut. This would put pressure on the Lithuanian currency, which is currently pegged to the euro. However, any attempt to change the litas to euro ratio could

lead to instability in the financial markets and to a liquidity crisis.

The present parliamentary majority is composed of a fractious coalition of small political parties. However, their politicians have been able to agree on several important economic decisions. Minimum wages and pensions were increased and personal income tax was cut. It was also decided to consolidate the power sector to raise funds for the construction of a new nuclear power plant and electricity power grid connections with Poland and Sweden.

The consolidation of the electricity sector will create a holding company that owns a majority share in the Lithuanian electricity network operator, as well as two electricity distribution companies. The new power company will be Lithuania's third-biggest company by revenue, and it will strengthen the dominant role of the energy sector in the top 10 list. However, given the EU's drive to unbundle electricity production, supply and distribution, the government might be forced to reorganize the electricity market again.

The 2007 list of Lithuania's 10 largest companies is largely the same as the previous year. The list is dominated by energy and the consumer retail business. Two of the four largest retailers in Lithuania are still owned by local investors. The recent acquisition of Palink

Macroeconomic data - 2007

GDP Per Capita PPP (EUR)	18 222
GDP growth rate	8,8%
Annual average inflation rate	5,8%
Unemployment rate	4,3%
Population (thousands)	3 385

UAB (the 2nd largest retailer) by the European Coopernic Alliance, though, indicates that the multinationals are watching local companies carefully, and further acquisitions can be expected. Only two companies on the list – Lithuanian Railways and Lithuanian Energy – are state-owned. However, the privatisation process in Lithuania is coming to an end. Out of the top 10 list, only Lithuanian Railways (Lietuvos geležinkeliai AB) is sometimes mentioned as a potential target for privatisation, but final decisions have yet to be taken.

Only two Lithuanian companies (Mazeikiu Nafta and Maxima LT) are on the list of 100 largest companies in Central Europe. It is unlikely that this will change in the near future. Lithuania is seeking to promote and develop small and medium-sized businesses (SMEs) rather than big

firms, and the emergence of new giants in the near future is unlikely. Indeed, much of the EU funding Lithuania has received is aimed at boosting productivity increases in SMEs. And productivity growth is vital for the Lithuanian economy, as this is an area where the country lags behind the EU average.

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	# Top 500	Company name	Revenue from sales (mIn Euro)	Revenue change %	Net income (mIn Euro)	Net income change %	Number of employees
			2007		2007		2007
1	36	Mažeikių Nafta	2 552,7	-25,7	28,8	-49,7	3 344
2	62	Maxima	2 007,1	31,4	N/A	N/A	25 251
3	315	Lukoil Baltija	593,3	22,8	N/A	N/A	1 656
4	344	Palink	544,8	31,3	N/A	N/A	8 921
5	440	Senukai	452,1	26,9	42,1	72,9	4 791
6	481	Achema	418,2	65,8	25,9	58,9	1 669
7	495	Lietuvos geležinkeliai	407,5	16,6	38,7	19,6	10 535
8	N/A	Norfa	373,8	9,4	N/A	N/A	4 400
9	N/A	Lietuvos energija	321,7	18,3	14,0	158,7	1 752
10	N/A	Neo Group	321,7	81,7	N/A	N/A	238

Macedonia

The key issues on Macedonia's strategic agenda are NATO membership and setting a date for the start of European Union (EU) accession negotiations. The country is now a candidate for EU membership, and is waiting for a formal invitation to join the NATO alliance.



The key issues on Macedonia's strategic agenda are NATO membership and setting a date for the start of European Union (EU) accession negotiations. The country is now a candidate for EU membership, and is waiting for a formal invitation to join the NATO alliance delayed over a dispute with Greece over the country's name.

Parliamentary elections in Macedonia in June 2008 saw the incumbent centre-right party win a mandate to form the government and continue reforming the economy, the social welfare system and the judiciary. Nikola Gruevski, the head of his pro-EU, centre-right party, stayed in his post as Prime Minister. Zoran Stavrevski, who had earlier worked with the World Bank, was appointed Deputy Prime Minister responsible for the economy. The World Bank has praised Macedonia, placing the country fourth on a worldwide ranking of reformist countries in 2007 in its 'Doing Business' report. Macedonia's second-largest city, Bitola, was also selected as the best city for doing business in southeastern Europe.

Real gross domestic product (GDP) growth of 5.1 per cent in 2007 and a more ambitious goal set for 2008 show that Macedonia is on the right path to providing a stable and prosperous future for its citizens.

The figures underpin the optimism. Foreign direct investment (FDI) in 2007 amounted to EUR 240 million, while it reached EUR 240 million in the first six months of this year alone, suggesting that by the year's end, FDI will have at least doubled. Greenfield investments in the country in 2007 were the most significant: in the automotive industry by Johnson Controls from the US and Johnson Metty from the UK, Mobilco Austria in telecommunications, with Hypo Alpe Adria Group in the financial sector. The main attraction for FDI lies in the more favourable investment climate, the 10 per cent flat-tax rate on corporate and personal income, simplified procedures for registering new companies, the functioning of the land registry, and a stable monetary and fiscal policy.

Political factors also play a role, with a large measure of consensus between the coalition parties and a reformist government with a zero tolerance policy on corruption and non-performance on the part of those in charge of implementing economic reforms. A sign of this commitment is a public procurement law which transposes EU directives enshrining transparent and accountable procedures. In addition, the introduction of single window system by the customs administration for foreign trade in goods and services has significantly eased bureaucratic procedures that had been hampering business.

Macroeconomic data - 2007

GDP Per Capita PPP (EUR)	8 421
GDP growth rate	5,1%
Annual average inflation rate	2,3%
Unemployment rate	34,9%
Population (thousands)	2 040

The country has also strengthened its financial regulatory systems, which has reduced the risk of financial crises and scandals. The Macedonian banking sector's decision to implement the BASEL II criteria, and the establishment of a strong and efficient Securities and Exchange Commission, have resulted in the strengthening of investors' confidence in the viable and sustainable future growth of the Macedonian economy.

Macedonian SMEs, which are key drivers of growth and job creation, have started to expand and even become leaders in the region, mostly in the IT business segment. Alkaloid Pharmaceutical Company, which is one of the country's corporate leaders, is developing its strategy of becoming an international rather than a local brand. Alkaloid is planning to expand its activities through a more aggressive research and development programme.

Key sectors propping the economic growth in 2008 will be infrastructural public private partnership (PPP) projects involving Macedonian airports, the construction of a gas production facility, small electric power plants, and highways through PPP concessions. There is also a PPP project in the railway sector, as well as expected further liberalization of the telecommunications sector. Other industries with high growth potential are the agricultural sector and tourism. Promotion of Macedonian wine, honey, vegetables, hot springs and thermal waters can boost exports and provide more jobs for people living in the country.

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	# Top 500	Company name	Revenue from sales	Revenue change %	Net income	Net income change %	Number of employees
			(mln Euro)		(mln Euro)		
			2007		2007		2007
1	395	Okta	490,3	0,0	16,1	13,5	927
2	N/A	Makpetrol	327,2	2,8	2,7	-43,8	1 916
3	N/A	Fersped	116,5	30,3	3,9	49,2	N/A
4	N/A	Makstil	90,0	32,9	3,4	207,6	820
5	N/A	Alkaloid	69,3	20,0	6,2	10,2	N/A
6	N/A	Granit	36,6	7,0	5,7	30,4	2 092
7	N/A	Skopski Pazar	30,0	11,8	1,5	17,7	531
8	N/A	Mavrovo	25,3	-18,2	-2,4	-2 608,6	1 098
9	N/A	Makrosped	24,5	8,9	2,3	28,1	225
10	N/A	Vitaminka	17,2	12,2	0,5	38,3	480

Moldova began its transition to an independent free market economy following the collapse of the Soviet Union in 1991. Originally one of the poorest countries in the region, Moldova has introduced many reforms, but still faces multiple challenges.



Moldova began its transition to a free market economy following the collapse of the Soviet Union in 1991. Originally one of the poorest countries in the region, Moldova has introduced many reforms, but still faces multiple challenges. Its agriculture-based economy relies heavily on remittances from citizens working abroad, while a record drought in 2007 had a devastating impact on an already precarious agricultural system. The business climate is, however, conducive to foreign investments, which are growing slowly.

The local economy depends, to a significant extent, on Russian energy imports. Russia's control over Moldova increased at the end of 2005, when natural gas and electric energy supplies were cut off as the result of a price dispute. A ban on Moldovan wine and agricultural products, coupled with a decision to double the price the country paid for Russian natural gas, hit gross domestic product (GDP) growth in 2006. Growth returned to the 6 per cent annual level reached in the 2000-2005 period when the ban was partly removed. 2008 will also see faster economic expansion, due to trade with the EU and exports to Russia.

The Moldovan economy is slowly recovering from the 2007 drought, with real GDP growing by an annual

4.3 per cent in the first quarter of 2008 after a decline in the second half of 2007. Private consumption also grew, thanks to continuing remittance flows, which helped consumers to counter the effect of rising prices.

The current account deficit totalled 250 million USD, or 21.9 per cent of GDP, in the first quarter of 2008. This was slightly lower than in the same period last year. Imports are seeing a higher growth rate than exports, causing the trade deficit to widen from 467 million USD in the previous year to 688 million USD. This is caused by more expensive energy imports, while more goods have also been imported to cater for remittance-driven consumption. The trade deficit has now reached 60 per cent of GDP, compared with 56 per cent in the first quarter of 2007 and 43 per cent in 2006. The ratio of imports to exports, meanwhile, has fallen from 46 per cent in 2006 to 34 per cent in 2007. Exports remains constrained, however, by Moldova's narrow agro-industrial base.

The increase in food prices caused inflation to rise by an annual 16.9 per cent in May 2008. A small fall should prove possible later this year and in 2009, owing to slower food price growth, as well as relatively tight monetary and fiscal policies. Consumer price inflation is however likely to remain above 9 per cent, year on year, until the end of 2009.

Macroeconomic data - 2007

GDP Per Capita PPP (EUR)	2 925
GDP growth rate	6,0%
Annual average inflation rates	12,5%
Unemployment rate	7,3%
Population (thousands)	3 300

The government and presidential administration are expected to continue to maintain their pro-EU stance. Fulfilment of the EU-Moldova Action Plan will remain a priority goal, despite the fact that the EU only extended the Action Plan after its expiry in February 2008, and did not begin talks on an association agreement, as expected by Chisinau. The Moldovan government is unlikely, however, to abandon its drive for closer integration with the EU.

The poor business environment has meant a low employment rate of only 57 per cent. Although not yet a problem, labour migration has accelerated wage growth and raised the possibility of labour shortages, particularly in the outlying regions. The overall unemployment rate, though, is still likely to exceed 17 per cent.

Moldova's top companies are to be found in the energy and resources sector, followed by retail

business and manufacturing, while the telecommunications sector is dominated by the Moldtelecom company. The company with the highest local ranking in 2006, Moldovagaz SA, reported revenues of EUR 331.7 million in 2007. The construction sector is also booming, and at 27.1 per cent recorded the highest growth rate in the Moldovan economy.

Moldova's government placed 40 companies on sale on the Moldovan Stock Exchange in June 2008, including pharmaceutical and tobacco firms, and a small bank. The sale of 14 of these companies has raised Lei 63 million. The next 10 companies to be sold are estimated to be worth around Lei 80 million.

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Following a referendum on independence from Serbia two years ago, the tiny mountain state of Montenegro, which has used the euro as its currency since 2002, is now set on achieving membership of the European Union (EU) and NATO.



Following a referendum on independence two years ago, the small mountainous Adriatic state of Montenegro, which has used the euro as its currency since 2002, is now set on the course of achieving membership to the European Union (EU) and NATO in the next decade.

Led for almost two decades by Milo Djukanovic, who was reconfirmed in the post in an election last April, Montenegro cleared the first obstacle to full EU membership when it signed a Stability and Association Agreement (SAA) with Brussels in October 2007. The SAA commits Montenegro to the adoption of European Community law and stresses the development of an efficient administration and an independent judiciary. The country has also pledged to combat corruption and organized crime. Montenegro plans to complete the adoption of EU laws in 2012, and has a target date of joining the EU by 2015.

Boosted by major foreign direct investment (FDI) of 1 billion euro in 2007, marking an increase of 56 per cent on 2006, Gross Domestic Product (GDP) grew by 7.0 per cent in 2007. The economy of this small country with a population of 650,000 is expected to grow by 9 per cent this year. In the meanwhile, industrial production in 2007 grew by 0.1 per cent compared to the previous year, while retail inflation rose quickly to 7.7 per cent compared to 2.8 per cent in the previous year.

The privatisation process failed to match the FDI growth as the sale of companies such as Luka Bar, Plantaže, and Institut

Simo Milošević, was postponed, and the adoption of further privatisation plans was also delayed.

A lot of investment is, however, going into the tourism sector as banks are financing projects to turn Montenegro into an upscale tourist destination. Indeed, last year the country built on its natural 'wild beauty' brand and was visited by 1.1 million tourists, or 18.8 per cent more than in 2006. For the fourth consecutive year, Montenegro has been ranked among the top three tourist destinations by the World Tourism and Travel Council (WTTC), a leading trade organisation, in terms of growth over the coming decade.

Tourism and aluminium (KAP, the main aluminium producer, is owned by Rusal of Russia) are Montenegro's main strategic sectors, although their performance is threatened by possible power shortages. FDI which is currently flowing in from, among others, the Russian Federation, Great Britain and Hungary, will be focused on tourism and the energy sector. At the moment, as much as half of FDI is pouring into real estate projects and related sectors, while a large part of the remaining inflow has been going into the financial sector, mainly from the Austrian Hypo Alpe-Adria, the French Societe Generale and OTP from Hungary.

The economy was supported by a dynamic and rapidly expanding banking sector in 2007. Compared with the end of the previous year, bank assets doubled, while their capital stock increased 1.6 times. At the same time, lending increased 2.6 times, loans to

Macroeconomic data - 2007

GDP Per Capita PPP (EUR)	9 663
GDP growth rate	7,0%
Annual average inflation rate	4,2%
Unemployment rate	14,7%
Population (thousands)	650

private clients went up 2.5 times, and loans to companies by a factor of 3. This increase in lending outstrips similar developments in other countries in the region. Although banking supervision is being strengthened, very rapid credit growth could cause problems if it exceeds the capacity of the banks to underwrite loans prudently and exacerbates asset price inflation. Indeed, the takeoff has been accompanied by remarkably high external current account deficits, with credit mounting to seemingly unsustainable levels.

At the moment, the high external trade deficit does not represent a problem, as it is mostly covered by FDI inflows and is a consequence of accelerated economic development. However, annual external trade deficits measured as a share of GDP in the period 2005-2007 were high. And, if the competitiveness of Montenegrin production does not increase in the long term, then the national debt will grow, and so will the budget deficit.

Nevertheless, Montenegro is a beautiful country and an established tourist destination. The development of services

supporting this sector will strengthen the domestic economy and help the balance of trade. It is exactly the potential that promises to cater to foreign demand and help stabilise the economy in the medium term.

The list of leading companies in Montenegro, measured by total revenues, has not changed much in comparison to 2006. The Crnogorski Telekom a.d., Podgorica – Deutsche Telecom Group (Telecommunications) and Kombinat Aluminijuma Podgorica a.d., Podgorica (Process Industries) top the list. Interestingly, these two companies have revenues much bigger than the third, fourth and remaining companies among the top 10. In fact, they have been two leading companies in Montenegro for the last three years, measured by total revenue.

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#	Top 500	Company name	Revenue from sales (mln Euro)	Revenue change %	Net income (mln Euro)	Net income change %	Number of employees
			2007		2007		2007
1	N/A	KAP	260,6	-2,7	-2,3	-104,9	N/A
2	N/A	Crnogorski Telekom	142,8	20,9	40,4	55,1	904
3	N/A	Rudnici Boksita	30,0	21,9	-15,8	-5,8	1 242
4	N/A	Jadransko Brodogradiliste	25,0	29,2	0,4	151,4	695
5	N/A	Zeljeznica Crne Gore	24,9	-3,4	-9,7	-22,4	1 961
6	N/A	HIT Montenegro	16,5	4,0	2,3	-33,6	220
7	N/A	Barska Plovidba	10,3	-0,2	0,2	-52,5	86

Poland

Poland, the largest of the European Union's (EU) new member states, is also one of the fastest-growing economies in the OECD. Inflationary pressures are increasing, though, as the government, led by the Civic Platform, seeks to tighten fiscal policy in an effort to ensure economic stability.



Poland, the largest of the European Union's (EU) new member states, is also one of the fastest-growing economies in the OECD. Inflationary pressures are increasing, though, as the government, led by the Civic Platform, seeks to tighten fiscal policy in an effort to ensure economic stability.

Real gross domestic product (GDP) growth is expected to reach 5.9 per cent this year and 5.0 per cent in 2009. There has been a major drop in the unemployment rate, which halved between 2005 and last year.

The greatest challenge facing the new government is the shortage of labour. People who took early retirement (Poland has one of the lowest labour participation rates in the EU) will have to be enticed back into work, even though the privatisation of overstuffed state-controlled industries will send people back onto the labour market. The recent strength of the Polish currency has prompted many Polish émigrés to return home, and this should alleviate some of the labour shortage problems.

Nevertheless, for the moment, the shortage of labour is pushing up wages, while productivity is failing to match the increase. It is productivity gains, though, that have explained much of Poland's economic success in the past, and the present weakness of this indicator is contributing to inflation pressures.

There are still over 1,000 wholly or partially state-owned companies in Poland. Only a handful have been privatised in the past few years, and

the new government has said it will have privatised 740 enterprises by the end of its term in 2011. The sales are expected to generate 30 billion zloty in government revenue.

The table shows that the energy sector needs to be privatised first. Not only would this free up labour, but also generate funds for badly needed plant expansion and modernisation. Past underinvestment means that the country now faces the prospect of power cuts in the not too distant future, while prices will have to grow to reflect the costs of combating climate change

There are a number of Polish companies in the upper part of the CE Top 500 listing, but a closer look at these companies prompts some, less than optimistic, conclusions. The Polish companies we see in the top 100 are either state-owned or foreign-controlled multinationals. Companies owned by Polish entrepreneurs are in 97th place (Tele-Fonika, owned by Bogusław Cupiał), in 115th (Boryszew, controlled by Roman Karkosik), and in 135th place (PGF, owned by Jacek Sz wajcowski). It is worth keeping an eye on local entrepreneurs, as home-grown capital is still relatively weak. There are examples of cross-border expansion, such as Asseco or Comarch, both in the IT sector, but the health of the Polish economy would be served by more expansion by local businesses both at home and abroad.

Poland has now had some six years of continued dynamic growth, and this is reflected in the results achieved

Macroeconomic data - 2007

GDP Per Capita PPP (EUR)	16 277
GDP growth rate	6,5%
Annual average inflation rate	2,6%
Unemployment rate	9,6%
Population (thousands)	38 125

throughout the various industries, with energy and retail leading the way. Banks and insurance companies are also doing quite well, with the credit crunch yet to affect this segment of the economy. Polish subsidiaries of the major international banks such as Pekao S.A. (UniCredit) or BRE Bank (Commerzbank) are becoming increasingly important for their respective parents – also thanks to an appreciating Polish currency, which means that their results, calculated in euros, are becoming more and more impressive. However, the giant PKO BP savings bank is failing to use its potential as a regional force, leaving it in 5th place among the Central European banks. The PZU Group leads the way in insurance. It is still very strong in the domestic market, and has a footprint in the smaller countries in the region. Indeed, it could become a significant regional player if it were able to use its financial muscle to gain a greater presence in more key Central European markets.

The list shows that construction and real estate companies have yet to make

their mark. The locally owned Polimex Mostostal is in 169th place, Skanska Poland, owned by the Swedish building company, is 200th, and Budimex, controlled by Spain's Ferrovial, is 209th. These positions could change dramatically over the next few years, but only if the government is able to get its ambitious road and infrastructure building plans under way.

Polish companies have a unique advantage over their Central European counterparts in that they have a large domestic market, where economies of scale should work to their advantage. We have yet to see this advantage being used for cross-border expansion.

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	# Top 500	Company name	Revenue from sales (mIn Euro)	Revenue change %	Net income (mIn Euro)	Net income change %	Number of employees
			2007		2007		2007
1	1	PKN Orlen	16 857,2	24,2	655,4	24,0	23 223
2	4	PGE	7 487,0	82,9	534,4	34,4	38 839
3	9	Telekomunikacja Polska	4 821,0	0,8	601,2	11,7	31 789
4	10	PGNiG	4 400,3	12,8	242,1	-29,0	30 325
5	12	Metro Group Polska	4 332,9	24,1	N/A	N/A	26 200
6	14	ArcelorMittal	3 868,3	18,9	741,6	41,8	23 581
7	15	KGHM	3 565,8	8,0	1 040,0	16,4	27 692
8	18	Lotos	3 468,3	5,6	215,1	14,1	5 304
9	25	Fiat	3 061,1	29,3	92,3	43,4	4 173
10	43	Tauron	2 378,2	N/A	N/A	N/A	20 000

Romania

When Romania joined the European Union (EU) 18 months ago, it became the second-largest market in Central Europe and the seventh-largest in the EU. With a population of 21.6 million, it is an emerging economy with one of the highest growth potentials in the region.



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Romania's adoption of a controversial flat-rate income tax of 16 per cent in 2005 has been vital in driving both economic growth and foreign investment. In 2001-2007, economic growth averaged an annual 7 per cent, placing Romania among the fastest-growing economies in Europe. The latest data indicate economic growth of 8.6 per cent in the first quarter of 2008.

Over the past year, the Romanian currency, the lei (RON), has continued to depreciate, reflecting worsening foreign investor sentiment towards emerging markets. Nevertheless, the RON is expected to appreciate in the medium term against both the euro and the US dollar, albeit, at times, at the cost of higher volatility.

The turmoil on the financial markets was also reflected on the Bucharest Stock Exchange, where prices reached record lows, accompanied by low liquidity levels and daily volumes averaging a mere EUR 5 million in the first six months of this year. Romanian listed companies are among the most undervalued in the region. PER values decreased as investors became more risk adverse, despite the companies' often positive financial results. Nevertheless, prospects are favourable. Increasing volumes are expected in the coming spring, and it is predicted a considerable contribution will be made by the secondary market for government securities, which started operating at the beginning of August 2008.

In 2007, Romania played a leading role in the region in terms of foreign direct

investment (FDI), attracting EUR 7.2 billion (of which EUR 6.5 billion represented direct investments from EU member states). This amounted to roughly half of southeastern Europe's FDI inflows last year. FDI was 63.4 per cent higher in the first half of 2008 from the same period in 2007, reaching EUR 4.8 billion and covering 61 per cent of the balance of payments deficit. In terms of regional distribution, a large share of the FDI has been directed to the Bucharest area and the western part of the country, as the transport infrastructure in these regions facilitates exports to other EU countries. However, there is a growing trend among foreign investors to locate greenfield projects in other large cities, where qualified labour is cheap and the infrastructure is set to be developed with the help of the EU structural funds available for Romania.

The current account deficit widened to 14 per cent in 2007, and its sustainability raises concerns as FDI coverage is low, dropping from 91 per cent at the end of 2006 to 43 per cent in November 2007. This is partly because the Romanian government has sold most of its state-owned enterprises, leaving fewer major privatisations deals to be completed in 2008. Consequently, financing of the deficit will be left to volatile capital inflows, and the RON will be at the mercy of investor sentiment even as global credit market conditions worsen.

Romania remains a sought-after long-term investment location as the business climate has improved and legislation has been aligned with the EU's body of law. Foreign investors are free to repatriate 100 per cent of their profit after taxes, and they can benefit from Romania's cheaper labour force relative to productivity gains, even compared to countries elsewhere in Central Europe. Further opportunities arise from public-private partnerships (PPPs), with relatively

Macroeconomic data - 2007

GDP Per Capita PPP (EUR)	11 350
GDP growth rate	4,4%
Annual average inflation rate	4,9%
Unemployment rate	6,4%
Population (thousands)	21 565

large sums (around EUR 50 million) earmarked for strategic sectors such as infrastructure, transport, energy, construction and tourism.

The top-ranking Romanian companies are active in the energy, manufacturing, retail and telecommunications sectors. This year's top enterprises saw few changes in the hierarchy of the first 10 Romanian companies. Important progress was seen in the manufacturing segment, with Dacia Group and ArcelorMittal Steel moving up 10 and three positions respectively.

The main driver for Dacia was external demand, with 75 per cent of its local production being distributed to foreign markets. This strategy was all the more necessary since the Romanian domestic auto market is slowing, with sales of new cars decreasing and second-hand imports moving up. ArcelorMittal, on the other hand, is gaining from the increasing global demand for steel, especially from developing countries and regions such as Brazil, Russia, China, India, the Middle East, Turkey and South Africa.

Record oil prices helped Petrom, Romania's largest oil company, to boost

its net profit by 88 per cent in the first half of 2008. The company now plans to invest considerable resources in the development of renewable energy sources and to further improve its operational efficiency. Orange and Vodafone, two mobile operators, remain the main telecommunications players in term of market share, with their operations in Romania among the most profitable in Europe. Both operators stayed far ahead of competitors Zapp and Cosmote. The most important fixed-line telephone company, Romtelecom, is following the other major European incumbent telecoms operators such as Deutsche Telekom, which have started to deploy next generation networks, offering an integrated service including voice, data and VPN, internet and video services. Romtelecom has said it will spend EUR 500 million on a next generation network, if the regulatory authorities will allow a reasonable return on the investment.

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	# Top 500	Company name	Revenue from sales (mIn Euro)	Revenue change %	Net income (mIn Euro)	Net income change %	Number of employees
			2007		2007		2007
1	16	Petrom	3 537,9	-7,6	503,9	-24,7	40 067
2	50	Rompetrol	2 267,7	4,0	-60,3	-243,0	N/A
3	63	ArcelorMittal	1 969,4	10,5	92,0	88,1	14 389
4	64	Dacia Group	1 965,5	20,8	125,3	13,4	11 486
5	91	Metro	1 503,7	-5,0	67,7	-1,0	10 987
6	136	Lukoil	1 158,4	12,2	15,1	-64,5	3 566
7	138	Rompetrol Downstream	1 154,1	82,7	-4,0	-12,6	2 371
8	139	Orange	1 144,5	3,9	345,4	-16,6	2 839
9	150	Vodafone	1 088,2	3,6	249,8	-25,3	2 836
10	161	Interbrands	1 013,5	28,0	-0,8	-144,1	2 336

The Serbian Government remains well on track for a rapprochement with the European Union (EU), pending ratification of the Stability and Association Agreement (SAA) that was signed with Brussels in spring 2008.



The Serbian Government remains well on track for a rapprochement with the European Union (EU), pending ratification of the Stability and Association Agreement (SAA) that was signed with Brussels in spring 2008. Despite the challenging political environment, the past seven years of democratic transition have seen Serbia making progress in both the economic and political spheres.

Overall, Serbia's economy remains buoyant, with growth of 7.5 per cent in 2007 from 5.7 per cent the previous year. Notwithstanding a slowdown caused by this year's presidential and general elections, foreign investment, amounting to EUR 729 million in the first quarter of 2008, promises to be an improvement over the previous year's EUR 2 billion (2006: EUR 4.3 billion). This is supported further by the fact that the new government, formed by pro-EU parties, plans to focus on European integration, economic growth, infrastructure development and responsible social policies.

Nonetheless, Serbia's new government does face high and accelerating inflation, which is one of its main macroeconomic challenges. Increases in energy and food prices are mainly to blame for this, but public spending has to be cut if inflation is to be reined in. Although labour market trends show improvement, with the unemployment rate dropping from 20.8 per cent in 2006 to 18.1 per cent last year, social inequalities and uneven regional development continue to pose

challenges. Balancing the need for state spending on development and social programmes with that to combat strong inflationary pressures is one of the keys to achieving macroeconomic stability in the medium term.

Despite strong export growth, Serbia continues to record a high current account deficit, which totalled EUR 5 billion in 2007. Whilst this was partly offset by increased corporate and household borrowing abroad, FDI and foreign remittances still make up the positive difference in the balance of payments. Looking to the future, though, the fact that Serbia's current account deficit has been so high for four years in a row is of concern. Better results are expected as large strategic investors in the automotive, high-tech and energy sectors enter the market, and the existing Foreign Trade Agreements with Russia, CEFTA and the EU are taken better advantage of.

Serbia's privatisation law decrees that state-owned capital should be phased out by the end of 2008. However, with 802 companies still in state hands, this deadline is bound to be missed. The government is working to find strategic investors for important large companies and industry sectors, such as Zastava Kragujevac, a local car manufacturer that recently signed a ground-breaking agreement with Fiat of Italy. This also includes an energy agreement with Russia, which includes the sale of a 51 per cent stake in state-owned oil refining company NIS to Russia's Gaspromneft.

Macroeconomic data - 2007

GDP Per Capita PPP (EUR)	10 421
GDP growth rate	7,5%
Annual average inflation rate	10,1%
Unemployment rate	18,1%
Population (thousands)	7 402

Overall, the government is continuing to implement measures aimed at attracting foreign investment. Besides NIS, much is expected from the privatisation of other large state-owned companies. EPS, an state-run electric power company (which is also the biggest corporation in Serbia), seems set for an IPO, as do Telekom Srbija and Belgrade Airport. The government's plan to distribute 15 per cent of the shares in the largest state-owned companies to the general public is facilitating their privatisation. Other companies on the list include Galenika, a state-owned pharmaceutical producer that is to be sold next year and JAT, the Serbian national carrier (for which the tender was published in July 2008).

The list of leading companies in Serbia, measured by total revenue, has not changed much since 2006. The two state-owned energy sector companies NIS (Oil) and

EPS (Electricity) top the ranking. Interestingly, these two companies combined have the same revenues as the remaining eight companies among the top 10. The energy sector emerges as the economy's absolute leader, with Srbijagas (Natural Gas) as the 7th largest company. However, telecommunication was the most profitable industry in the country, while the highest loss was reported at Železnice Srbije (Serbian Railways).

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	# Top 500	Company name	Revenue from sales	Revenue change %	Net income	Net income change %	Number of employees
			(mln Euro)		(mln Euro)		
			2007		2007		2007
1	20	NIS	3 357,0	10,2	79,8	7,7	N/A
2	79	EPS	1 644,4	34,3	-1 245,5	-746,7	35 609
3	106	Delta M	1 340,2	62,8	57,4	N/A	18 000
4	112	PTT Srbija	1 291,9	39,8	159,5	3,9	N/A
5	155	Telekom Srbija	1 056,8	30,4	152,4	-18,7	14 592
6	170	US Steel Srbija	980,9	20,3	37,9	N/A	N/A
7	253	Srbijagas	714,0	32,3	23,2	680,0	1 022
8	N/A	Zeleznice Srbije	395,1	49,1	67,5	132,2	17 121
9	N/A	HIP Petrohemija	385,5	17,2	24,2	218,4	2 399
10	N/A	Telenor	374,9	285,0	80,8	360,6	N/A

Slovakia was Europe's fastest-developing economy last year, its 10.4 per cent growth rate catapulting the country into the Asian league. Growth is expected to slow to a still impressive 7.5 per cent this year, underpinned by the rapid expansion and modernisation of Slovakia's industrial sector and high inflows of foreign direct investment (FDI).



Slovakia was Europe's fastest-developing economy last year, its 10.4 per cent growth rate catapulting the country into the Asian league. Growth is expected to slow to a still impressive 7.5 per cent this year, underpinned by the rapid expansion and modernisation of Slovakia's industrial sector and high inflows of foreign direct investment (FDI).

Euro-zone entry, planned for January 1, 2009, has further boosted FDI, which is expected to reach USD 2.7 billion this year. This will put Slovakia at the top of the European Union's new member states in terms of per capita FDI. The strong appreciation of the Slovak Koruna (SKK) in connection with euro entry has helped dampen inflation, which is nevertheless expected to hit 4 per cent this year, slowing to 3.6 per cent next year. The Slovak economy has also so far avoided any major fallout from the US sub-prime crisis.

Much hinges on the automotive industry, given its role as the country's largest investor. Indeed, such is its influence that measured by output per capita, Slovakia is Europe's largest carmaker. There are three auto manufacturers in the country: Volkswagen (which also produces the Audi Q7 and Porsche Cayenne models), KIA Motors and PCA. With the latter two coming on stream last year, production of automotive vehicles rose by 58.4 per cent from 2006. This boosted overall industrial output for the year by 12.8 per cent, the largest annual increase since 1999. Moreover, the car producers are followed by numerous car components manufacturers such as Mobis Slovakia, a unit of Hyundai Mobis, which was ranked 21st in the Top 25. The car industry is also well

supported by strong steel and aluminium producers U.S. Steel and Svalco. As much as a third of Slovakia's export revenue comes from the car industry, making the country vulnerable to a possible downturn in demand in Europe. Consumer electronics from factories owned by Sony and Samsung are also contributing to high growth.

While in power, Dzurinda's centre-right governments used the inflow of foreign investment and increasing prosperity to launch sweeping fiscal reforms, whose goal was to prepare the country for accession to the euro zone. Slovakia therefore introduced a flat-rate personal income tax and corporate income tax of 19 per cent in 2004, with the standard VAT rate at the same level. This helped to narrow the state budget deficit in 2004. Healthcare, social-security and pension system reforms were also launched.

The effects of the reforms are already enhancing living standards. Unemployment fell last year, while real wages rose by over 4 per cent. Incomes grew faster than current expenditure and savings went up by 17 per cent, with a near 10 per cent increase in private consumption. Unemployment, while still high at 11.1 per cent in 2007, is expected to fall slightly to 9.3 per cent this year. The first four of Slovakia's 25 largest non-financial companies in terms of sales were owned by foreign investors last year.

Tourism is very important for Slovakia. 32.6 million foreign tourists visited the mountainous country last year, up by 6.7 per cent from 2006 and six times the Slovak population.

Macroeconomic data - 2007

GDP Per Capita PPP (EUR)	19 888
GDP growth rate	10,4%
Annual average inflation rate	1,9%
Unemployment rate	11,1%
Population (thousands)	5 394

The utilities sector is very strong in Slovakia, evinced by numerous companies in the Top 25: Slovensky plynarensky priemysel, SPP distribucia and eustream for gas; Slovenske elektrarne, Zapadoslovenska energetika, Stredoslovenska energetika, Vychodoslovenska energetika and Slovenska elektrizacna sustava for electricity; and Slovnaft and Slovnaft Petrochemicals for the petrochemical industry. The transportation industry is represented in the Top 25 by Zeleznicna spolocnost cargo, which has operated Slovakian railway cargo services since January 1, 2005, when the passenger and cargo businesses were split.

Slovakia is also represented in this year's Top 25 by the paper production industry (Mondi SCP). Telecommunications also play an important role, represented in the list by Orange Slovakia, T-Mobile Slovakia and Slovak Telekom. Retail stores are less prominent than in other countries, with only Tesco making it to this year's Top 25 at number 13.

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	# Top 500	Company name	Revenue from sales (mln Euro)	Revenue change %	Net income (mln Euro)	Net income change %	Number of employees
			2007		2007		2007
1	7	Volkswagen Slovakia	5 725,1	9,1	225,2	2,4	8 495
2	19	Slovnaft	3 392,8	5,3	224,4	31,5	3 671
3	21	Samsung Electronics Slovakia	3 286,8	42,7	106,7	175,5	4 445
4	24	U.S. Steel Košice	3 073,0	6,3	405,9	-16,4	15 738
5	42	Slovenský Plynárenský Priemysel	2 381,3	-10,2	563,8	-16,3	5 438
6	82	Kia Motors Slovakia	1 606,3	5 261,3	26,3	415,2	2 441
7	89	PCA Slovakia	1 544,1	248,5	N/A	N/A	3 272
8	99	Slovenské elektrárne	1 380,8	-3,0	106,7	175,5	7 027
9	186	Slovak Telekom	910,0	14,3	182,5	205,8	5 265
10	199	Západoslovenská energetika	857,5	18,9	641,5	606,4	1 339
11	231	Eustream	749,7	110,6	91,0	-10,3	1 094
12	238	Orange Slovensko	743,3	15,7	172,8	7,7	1 471
13	240	Tesco Stores	739,2	21,2	N/A	N/A	8 300
14	244	Stredoslovenská energetika	731,7	32,6	80,3	23,5	1 876
15	267	Slovnaft Petrochemicals	672,6	128,8	29,6	1 345,5	375
16	327	Sony Slovakia	573,5	237,5	N/A	N/A	2 800
17	374	T-Mobile Slovensko	509,2	18,8	91,6	40,7	1 454
18	393	Metro Cash & Carry Slovakia	492,2	21,3	N/A	N/A	1 218
19	415	Železiarne Podbrezová	474,5	14,0	41,4	15,6	3 807
20	424	Železničná spoločnosť Cargo Slovakia	466,0	-3,5	-7,0	87,9	10 813
21	448	Mobis Slovakia	443,4	N/A	N/A	N/A	991
22	453	Mondi SCP	439,4	9,6	N/A	N/A	1 852
23	458	Východoslovenská energetika	437,3	6,0	68,6	23,1	1 538
24	466	Slov. elektrizačná prenosová sústava	429,2	7,5	41,7	41,0	564
25	N/A	SPP - distribúcia	400,6	153,7	97,4	48,3	1 704

Slovenia

Slovenia has been a member of the European Union (EU) since May 2004 and has the highest per capita gross domestic product (GDP) of all the new EU member states. Indeed, Slovenia's GDP per capita is even higher than that of Greece and Portugal. It was also the first of the accession countries to become fully compliant with the EU's Maastricht criteria, leading to euro adoption at the beginning of 2007.



Slovenia has been a member of the European Union (EU) since May 2004 and has the highest per capita gross domestic product (GDP) of all the new EU member states. Indeed, Slovenia's GDP per capita is even higher than that of Greece and Portugal. It was also the first of the accession countries to become fully compliant with the EU's Maastricht criteria, leading to euro adoption at the beginning of 2007. However, the two-million-strong Slovenia is now experiencing the highest inflation rate in the euro zone.

The Slovenian government is led by Prime Minister Janez Janša, the leader of the Slovenian Democratic Party (SDS), which came to power in the November 2004 general election. Other coalition members are two right-wing parties – New Slovenia (NSI) and the Slovene People's Party (SLS) – and the Democratic Party of Pensioners of Slovenia (DeSUS). The next parliamentary elections are to be held in September 2008.

2007 was a good year for the majority of Slovenian enterprises. Most of them saw higher revenue and profits than the year before, and those listed on the Ljubljana Stock Exchange (LJ SE) reported record capitalisation. At the end of 2007, the Slovenian government successfully floated a minority stake in Nova KMB, the country's second-largest bank, on the LJ SE, opening the way for other privatisations through the stock market. In the second half of 2007, a tender for the sale of Telekom

Slovenije attracted interest from both regional and global buyers. A number of management buyouts (MBO) were also completed, with that by Merkur, a technical equipment retailer, being the largest in Slovenia's history.

However, towards the end of 2007, companies began to suffer from rising fuel prices, which put pressure on the cost of other raw materials. At the same time, companies were affected by the strength of the euro against the US dollar (USD), which hampered exports to countries using the USD as their main trading currency. Certain sectors, such as construction, also faced workforce shortages in Slovenia and were forced to look abroad for labour. Also, while the government cut corporation taxes, companies operating in Slovenia continue to carry a relatively high tax burden.

In 2007, Slovenian companies were still mainly focused on markets in the former Yugoslavia. Nonetheless, some successful acquisitions were made in western Europe too. Krka, a pharmaceutical producer, acquired TAD Pharma, while Kolektor LIV, a producer of sanitary and cleaning equipment, took over Missel Schwab, another German company.

Mercator Group, the largest company in Slovenia, took the 40th spot in the CE Top 500 companies. Mercator, one of the largest retail chains in South Eastern Europe, is an important player in Serbia, Croatia, Bosnia and Herzegovina, and Montenegro. In

Macroeconomic data - 2007

GDP Per Capita PPP (EUR)	27 200
GDP growth rate	3.0%
Annual average inflation rate	3,8%
Unemployment rate	4,8%
Population (thousands)	2 010

2007, Mercator established a strategic alliance with Presoflex in Croatia and Mex in Montenegro.

In the energy sector, Petrol, Slovenia's largest energy company, came in 57th place. Petrol is the second-largest Slovenian company by revenue. It has actively pursued acquisitions in the region, and recently established joint ventures with Montenegro Bonus in Montenegro and Europetrol in Croatia. In 2007, intensive negotiations with Lukoil were conducted on the sale of a stake in Petrol, but the talks eventually failed and were formally closed at the end of the year.

Lek and Krka, both pharmaceutical companies, are once again at the top of the list of Slovenia's largest companies. Lek is a part of the Novartis group, while Krka continues to prosper without a strategic partner, earning the largest net income of all the country's companies in 2007.

NLB and Nova KBM, Slovenia's largest banks, found a place among the 50 largest banks in Central Europe. Both are still majority state-owned. NLB is making acquisitions throughout the region, while Nova KBM focuses mainly on the domestic market. Zavarovalnica Triglav, which is state-controlled, is among the top 10 insurance companies in Central Europe. It continues to enjoy the largest market share in Slovenia, with a gross written premium approximately three times larger than that of its nearest rival, the privately owned Adriatic Slovenica. Zavarovalnica Triglav is following a growth strategy based mainly on acquisitions in South Eastern Europe, where it has already become one of the most important players.

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	# Top 500	Company name	Revenue from sales (mln Euro) 2007	Revenue change %	Net income (mln Euro) 2007	Net income change %	Number of employees 2007
1	40	Mercator	2 445,0	18,4	35,0	45,8	N/A
2	57	Skupina Petrol	2 109,4	8,7	53,3	7,0	2944
3	111	Skupina Gorenje	1 293,0	16,4	24,0	9,1	11
4	122	Revoz	1 247,7	24,3	28,6	7,2	N/A
5	183	HSE	921,2	9,4	12,4	-84,0	N/A
6	184	Skupina Merkur	913,6	14,4	30,6	139,9	N/A
7	215	Skupina Krka	781,0	16,9	133,0	18,8	6777
8	216	Skupina Telekom Slovenije	780,1	4,7	88,4	-14,5	N/A
9	242	Lek	738,4	2,5	79,8	-30,6	N/A
10	308	Engrotuš	603,2	15,5	18,3	102,7	N/A