
Industry Analysis

Banking

The banking sector in the Adria region experienced asset growth, although in most cases, a slower one than before. Due to an increasingly restrictive monetary policy in Croatia, Croatian banks had lower growth rates, which resulted in the drop in the overall positions on the CE 100 list. Zagrebacka banka, part of Unicredit group, remains the market leader in front of Privredna banka Zagreb, part of Intesa Sanpaolo group. RBA and Erste bank, the previous year number three and four switched places this year, though the banking system in general is considered to be stable and competitive, with more than 95 per cent of the banks being part of foreign-based groups. Top six banks, which are present in the CE list have a combined market share in excess of 79 per cent.

Banks in Serbia are relatively smaller than their regional rivals, which is helped by the fact the population continues to keep an estimated USD 4 billion in foreign exchange "under the mattress". The corporate sector suffers from a lack of liquidity and high lending rates. However, the sector is converging fast as foreign banks enter the market and offer new financial products. The largest bank remains Banka Intesa, followed by Komercijalna banka and Raiffeisen bank.

Slovenian banks did well in 2007, with NLB group climbing one step to capture the number eight on the list, and Nova KBM holding on to its last year position. Nova Ljubljanska Banka, by far the largest member of the NLB group, managed to capture the number twelve spot on the list and holds over a third of the market. The banking system is relatively well developed and is considered to be sound and well capitalized, with a relatively low number of bad loans.

Insurance

Croatia Osiguranje, the state owned insurer dealing with life as well as non-life insurance, retained the first place on the Croatian market. The largest increase in gross written premium can be observed with the second placed Allianz, a part of the global Allianz insurance group. Euroherc and Jadransko osiguranje, which are also present in BiH, are both part of the privately owned Agram financial group. The primary source of gross written premiums continues to be motor third party insurance, with more sophisticated services, especially in life sector, emerging and gaining market share. There has also been an increase in offer of the private health insurance, with all the major players continuously increasing the level of services on offer.

Both Dunav insurance and DDOR insurance have been increasing their gross written premium in the past years. At the end of 2007, the majority stake in DDOR was sold to Italian based Fondaria SAI EUR 220 million. The sector is still undergoing consolidation and is likely to experience even higher growth as the economy progresses.

The largest insurance company in Slovenia is Zavarovalnica Triglav, in which the state indirectly holds a combined stake of more than 76 per cent through state-owned holdings. Its growth can mostly be attributed to its regional presence. The second ranked Adriatic Slovenica is expanding on the Serbian market and presents one of the best regional targets in the sector. Zavarovalnica Maribor is operating locally, and has growth opportunities mostly in the life sector. Vzajemna is working only in health insurance.

Energy & Resources

In the Adria region, energy and utilities part of CE Top 500 listing is dominated by state-owned companies such as EPS, HEP, and HSE. The process of privatization and liberalization in the region has only just started, and it is proceeding slowly. Mixed results from other countries in the region which have privatized their energy monopolies and separated generation from transmission and distribution during the 1990's, are strengthening the forces which are advocating only minority privatization of energy and utility companies through IPO's.

Oil and gas sector has been more competitive in the Adria region. Both INA and Petrol have been successfully listed on stock exchanges, and while Petrol already has only minority state ownership, INA is likely to be in the same position before the end of 2008. As for NIS, talks are under way for a negotiated majority sale to a Russian state-owned company, which would be part of the deal including building part of a South Stream gas pipeline through Serbia in partnership with Srbijagas.

In addition to these dominating local players, both OMV and MOL, through their 100%-owned local subsidiaries, have proved to be strong competitors in most Adria oil markets.

European fears of over-dependency on Russia for gas supply are resulting in a number of new LNG projects being worked on – in Adria region, it seems likely that a consortium including RWE, E.ON, TOTAL, OMV, INA, and HEP will get final approval for construction of a major LNG terminal on the island of Krk in Croatia.

Manufacturing

The trends in Adria region (Croatia, Slovenia, BIH, Serbia) are following those recognized in Central Europe, with a time delay present more intensively as you go southward and eastward. Along with acquisitions and technological level raising, the companies are also focusing on internal processes and people. This includes well accepted introduction of quality, environmental and health&safety management systems, as well as initiatives aimed towards overall competitiveness and productivity improvement. As companies focus more on people development, Human capital management is the area where activities are gradually being intensified, with top companies taking the leading role. As a result of lack of skilled manufacturing employees in the region in coming years manufacturing companies will be focusing more and more on people retention and implementation of best global practices in HR management.

The Pharmaceutical Sector

Pharmaceutical sector in the Adria region has traditionally been dominated by local producers like Krka and Lek in Slovenia, Pliva, Belupo and Jadranski galenski laboratorij in Croatia, Bosnalijek in BIH, Hemofarm, Galenika, Zdravlje and Jugoremedia in Serbia and Alkaloid and Replek in Macedonia. Due to fragmented market only 3 of them, Krka, Lek and Pliva made it to the CE Top 500 list as they successfully expanded its sales reach both to the eastern and western markets. In the recent years, some strategic players have already entered Adria region through acquisitions like Novartis (Lek), Barr (Pliva), Stada (Hemofarm) and Actavis (Zdravlje). In line with a global trend, there is further consolidation expected in the sector in the region.

None of the companies from the pharmaceutical distribution sector from Adria region made it to the CE Top 500 list which is also due to each company's concentration on local national market. Large strategic players like Celesio, Phoenix and Anzag have already acquired local

companies in Slovenia and Croatia which further entrance of strategic players is expected in the other countries of the region.

Technology – Media - Telecoms (TMT)

As expected, Adria region is represented by 6 dominant incumbent and mostly state owned telecoms, which are in lower part of the list due to relatively small markets comparing to larger CE economies.

Fixed telecom markets in Adria region are reaching mature phase with trend of decreasing traffic volumes. Still, with recent successful IPO of T-Hrvatski Telekom and other planned privatizations, like the one of Telekom Slovenije, further market expansion can be expected through collecting of new funds for continuous investment in Broadband, IP and Triple play services.

Due to high saturation levels of mobile voice markets, mobile network operators in Adria region are focusing on increasing their revenues through new mobile broadband and other content and data services, as well as fixed to mobile substitutions.

Eventhough Slovenia has aligned much of its telecommunications regulation with that of the EU and we have seen rise in competition on Croatian and Serbian markets, it can be expected that all Adria region telecom markets will be focusing on regulatory issues in future years enforced by Regulatory bodies in order to further continue with markets liberalization.