



Croatia

sets its sights on a strong future

Embracing democracy led to an invite to join NATO, and now pursuing pro-European policies is opening the door to the EU

With its formal admission to the North Atlantic Treaty Organization scheduled for April next year and its accession to the European Union firmly on course for successful completion, Croatia is on the verge of achieving its two most important international goals.

"This is an historic moment for Croatia," said Gordan Jandrokovi, the country's Foreign Minister, in July when NATO's 26 members signed the

set of protocols giving the green light for Croatia's entry. "Joining the alliance represents one of the most important moments in our history."

Membership in the European Union is further off and unlikely to be completed before 2011 or even 2012. But Prime Minister Ivo Sanader has been able to announce that the Zagreb government has met all the benchmarks for opening every one of the negotiation chapters for

accession, and completion of these negotiations is expected before the end of next year.

Entry into the two international bodies has been the primary ambition of Stjepan Mesi, Croatia's center-left-leaning President, and his center-right prime minister and the Croatian Democratic Union government.

Sanader has pursued pro-European policies ever since he first assumed office in 2003, and with renewed vigor following his return to power in parliamentary elections last November.

During the eight years of Mesi's presidency, previous authoritarian tendencies of government have been replaced by fully democratic processes. The legal system has been reformed, there has been cooperation with the international authorities over war crimes prosecutions and media restrictions have been lifted.

Real economic growth of 5.6% last year was accompanied by a reduction to single digit figure unemployment.

The challenge now will be to convince the country's four million people of the benefits of EU membership. According to opinion polls, only 30% believe it will be "a good thing," with another 39% expressing a neutral view.

SPOTLIGHT ON CROATIA

The restructuring of the Croatian energy sector has led to greater competition and an opportunity for U.S. investors to enter the market.

The opening up of Croatia's energy market in July 2008 has given industrial and commercial users the freedom to choose their suppliers. Domestic users have one year to decide whether to stay with the state-owned power utility HEP (Hrvatska Elektroprivreda) or take their business elsewhere.

With 2.2 million customers and total annual revenue of US\$2.29 billion, HEP is prepared for the competition. "I can hardly wait for it," says Ivan Mravak, who has just been reelected as company president.

Each of Croatia's three large, state-owned energy companies is preparing to undertake significant investments during the next few years and will provide promising opportunities for U.S. companies prepared to develop local representation

and partners. This is something the Zagreb government would welcome.

HEP is being restructured for eventual privatization, and substantial capital investments are being planned to ensure that local demand can be met and excess power can be sold to neighboring countries.

"We aim to remain an integrated company and the major electric-energy supplier in the region," says Mravak. "We are a business group with high levels of transparency and clearly divided legal, management and financial divisions."

HEP's present level of installed capacity can provide 4,060 megawatts (MW) – comfortably above the country's peak power demand, which last year reached 3,080 MW. However, electric-energy consumption in Croatia is growing at a rate

of 3% annually, 1% more than the European average.

"In order to satisfy the growing demand," says Mravak, "we have to decide whether to increase our electrical-energy imports, which are currently around 15%, or increase our installed capacity and possibly be an energy exporter."

HEP has drawn up a capital investment plan that envisions building six new power plants. If HEP moves ahead with this strategy, the company will finance one plant with its own capital and a credit line while funding the others through joint ventures with other international businesses. HEP has already worked with American companies. ❖

By Michael Knipe

HEP

Croatia - Tesla - World

www.hep.hr

The Home Front

Croatia's top toy, sports equipment and fashion retailer is expanding its Central European chain of stores and opening a new household accessories division.

In contrast to the international economic downturn, and despite the tension in the wider Balkan region, Croatia recorded growth of 5.6% last year and is projected by the International Monetary Fund to achieve 4.3% growth this year.

In a reflection of the country's buoyant state, Croatia's leading retailer, Magma, has opened ten new stores in seven locations across Central Europe and extended its range of merchandise to include home accessories.

"We expect a lot, not only from sales but in the bottom line," says Goranko Fizulic, Magma's chief executive. "By creating a new division, we'll improve our margin and be competitive in other markets."

The new Magma Home stores are opening in Belgrade, Budapest, Ljubljana, Rijeka, Slavonski Brod and Nis. These are in addition to the 130 stores the company has established in five countries since its creation as a private company in 1989.

Having identified the benefits of embracing international standards and using a modern business model, Magma recorded 26.8% growth last year, resulting in sales of \$175.9 million and net profit growth of 28.3% to \$8.7 million, most of which came from organic growth and regional expansion.

"In eight years we have grown five and a half times," says Fizulic, a former Minister of the Economy in Croatia. "For a small country like Croatia, it is difficult to compete in the global market. A lot of foreign companies are entering our market, and unless we, the locals, are well organized and up to international standards, we will not be competitive."

Explaining his business philosophy, Fizulic says, "We are dealing with customers of rather modest purchasing power, so we need to have competitive prices with global brands."

Magma's business activities are divided into four segments: retail, distribution,

production and export. Retail is comprised of Turbo Limač, which offers an extensive selection of toys for young children; Turbo sport; Magma fashion; and Urban Republic clothing stores.

Distribution handles food products, toys, baby products and sports-related goods, while production concentrates primarily on Magma's own brand items.

Magma has become one of the few profitable textile groups in Croatia by adopting the same approach as global fashion leaders and concentrating its production in China, where it also sources other goods.

"Our advantage is that we are still a small company that can be fine-tuned," says Fizulic. "Our administration costs are much lower than those of the global giants."

Fizulic is exploring the possibility of making Magma's distribution network available to more U.S. companies. "I'm particularly interested in small- and medium-size companies, especially in the fashion business," he says. "Companies that have international business, in China for instance, could be good partners for us. We're already doing very successful business with several American mid-size companies that produce children's clothes and baby equipment."

Fizulic considers his biggest achievement so far to have been the creation of the Magma brand. "To be successful you need local knowledge and a good team," he says.

He plans to invest up to \$12.6 million in Magma Home and expects consolidated net profit this year to increase to \$10.9 million. ♦

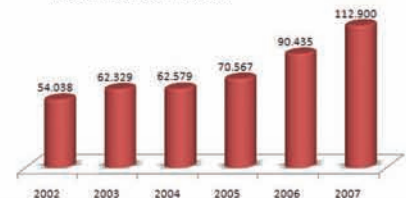
Director: Lucas Montes de Oca; **Managing Editor:** Beverley Blythe; **Project Managers:** Inti Perez-Pedersen, Stephanie Gillespie; **Project Development:** Charlotte Saint-Arroman; **Commercial Director:** Carolina Mateo; **Designer:** Luis Iribarren.
This special advertising feature was produced by Insight Publications, a division of Impact Media International Ltd.
150 East 55th Street, 7th Floor, NY, NY 10022, USA
Tel: +1 212 629 1936 Fax: +1 212 629 1938
www.insight-publications.com
e-mail: publisher@insight-publications.com

MAGMA

Magma is the leading importer and retailer of world famous brands of fashion, toys, FMCG and sporting goods in the Adriatic Region (SE Europe) with a highly organized chain of retail stores and wholesale network.



Total income in 000€



Information for investors:
www.investormagma.com

Magma shares are listed in first quotation (official market) on the Zagreb Stock Exchange under the code MGMA-R-A.
www.zse.hr

INSIGHT PUBLICATIONS



© MASTERFILE/JEREMY WOODHOUSE

Town of Rovinj at Sunset, Croatia

Insight Publications is a division of
Impact Media International Ltd.
150 East 55th Street, 7th Floor,
New York, NY 10022-6207, USA
tel: +1 212 629 1936 ~ fax: +1 212 629 1938
www.insight-publications.com
e-mail: publisher@insight-publications.com