The leading pharmaceutical and medical devices wholesaler in Serbia

June 2010
# TABLE OF CONTENTS

**INVESTMENT HIGHLIGHTS** .................................................................................. 1  
   Company summary .............................................................................................. 1  
**GROWING AND PROMISING PHARMACEUTICAL MARKET** ..................... 2  
**VELEFARM OFFERS AMPLE GROWTH OPPORTUNITIES** ......................... 4  
   Organizational Structure ................................................................................... 4  
   Current sales and growth strategy ................................................................... 5  
**OWNERSHIP STRUCTURE OF THE COMPANY** ........................................... 6  
**SCOPE OF TRANSACTION** ............................................................................. 6  
   Next step ........................................................................................................... 6  
**CONTACT** ......................................................................................................... 7
INVESTMENT HIGHLIGHTS

Company summary

- Velefarm is the leading pharmaceutical wholesaler and distributor in Serbia and Montenegro (market share of c. 36%) and is also active in Bosnia and Herzegovina.
- The company was founded in 1979 and is listed on the Belgrade Stock Exchange; in 2006 the management acquired a 53.43% stake in Velefarm.
- Today, the company has a market capitalization of c. €21 m and generates a turnover of €240 m with c. 700 employees.
- Velefarm distributes pharmaceuticals, medical material and equipment, supplementary agents, laboratory diagnostics as well as dental and veterinary products.
- Major customer groups are private and public pharmacies as well as hospitals which are served via 10 modern distribution centers with c. 7,150 different pharmaceuticals.

Velefarm was founded 30 years ago and represents one of the top players in the industry on the local as well as regional market and consequently benefits from long-term experience and tradition in the pharmaceuticals trade. The Company is well-known for its proactive business strategy offered by a winning management team and qualified personnel.

It has a leading position in pharmaceuticals wholesale and holds an overall market share for Serbia, Montenegro, Republika Srpska (Bosnia and Herzegovina) of around 36%. That market share enables the Company to maintain strong negotiating position toward the suppliers and numerous advantages compared to the competitors.

The Company operates as holding company comprising 10 business centers in Serbia and 7 subsidiaries of which 4 are located in Serbia and other 3 are situated in the neighbouring countries and thus represents a unique investment opportunity in the region due to its widespread distribution network with 45,000m² of warehouse space, office space of 10,515 m² and 171 delivery vehicles.
GROWING AND PROMISING PHARMACEUTICAL MARKET

In 2009, the drug expenditures market in the main developing South Eastern Europe (SEE) markets (Romania, Bulgaria, Croatia and Serbia) is estimated to amount to €5,055 million and €352 million for minor SEE markets (Albania, Bosnia & Herzegovina, Macedonia and Montenegro), well below Western European standards. In 2008, drugs accounted for 15% to 30% of total health expenditure in Western Balkan states. The South Eastern European pharmaceutical market is expected to experience significant growth over the next five years, mainly through the following drivers:

- An increase of disposable income
- An underdeveloped pharmaceutical market compared to Western Europe (drug expenditure per capita of €130 vs. €350 for Western Europe)
- Introduction and strengthening of national reimbursement systems (as in Russia in 2005), which will lead to an important increase in health expenditure
- Exposure of the population to “western affluence diseases” (e.g. cholesterol, high blood pressure, diabetes, heart disease, etc.)
• Lack of substitution on the pharmacy level, which makes the investments in branding and marketing more rational and stops pure low-cost strategies from completely succeeding

Total estimated drug expenditures in 2009 (€mil)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romania</td>
<td>2,540</td>
</tr>
<tr>
<td>Serbia</td>
<td>943</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>674</td>
</tr>
<tr>
<td>Croatia</td>
<td>597</td>
</tr>
<tr>
<td>Bosnia &amp; Herzegovina</td>
<td>143</td>
</tr>
<tr>
<td>Albania</td>
<td>104</td>
</tr>
<tr>
<td>Montenegro</td>
<td>74</td>
</tr>
<tr>
<td>USA</td>
<td>31</td>
</tr>
</tbody>
</table>

Estimated drug expenditures per capita in 2009 (€)

<table>
<thead>
<tr>
<th>Country</th>
<th>Per Capita Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>157</td>
</tr>
<tr>
<td>Serbia</td>
<td>128</td>
</tr>
<tr>
<td>Romania</td>
<td>19</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>16</td>
</tr>
<tr>
<td>Bosnia &amp; Herzegovina</td>
<td>52</td>
</tr>
<tr>
<td>Albania</td>
<td>52</td>
</tr>
<tr>
<td>Montenegro</td>
<td>40</td>
</tr>
<tr>
<td>USA</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: BMI, EIU
Data for Albania, Macedonia, Bosnia & Herzegovina and Montenegro are as of 2005

The OTC market is growing significantly in the CEE region:

• CEE countries display OTC growth at rates significantly above the European average
• CEE CAGR growth 2004-2007 reached 13% vs. 4% for Western Europe

The Serbian pharmaceutical market accounts for 2.5% of total GDP (aprox. €35bn in 2008) and is characterized by substantial domestic manufacturing capabilities and the availability of human capital:

In 2008, the industrial production of pharmaceutical products and preparations amounted to 37,260 tons (+15.4% y-o-y) and the drug market expenditure amounted to €877m.

The annual volume production growth rate ranges from 8% to 15%.

Serbia’s key domestic pharmaceutical producers include Hemofarm (owned by Stada) with 37%, Galenika with 21% and Zdravlje (owned by Actavis) with 18% market share.

The Serbian pharmaceutical market in 2009 was five times bigger compared to the 2002. It is expected to grow at a CAGR of 11% from 2008 to 2012 and the sector spending is likely
to reach more than €1.3 billion at in 2012. The drug expenditures per capita are expected to increase from €119 in 2008 to €179 in 2012, reflecting the greater availability of medicines and the gradual increase of per capita income.

**Drug expenditures in consumer prices (EUR) and evolution (%)**

![Chart showing drug expenditures per capita and growth from 2005 to 2012.](chart.png)

*Source: BMI, EIU*

Serbia’s pharmaceutical sales benefit from the *Free Trade Agreements* with the Russian Federation and the CEFTA (Central European Free Trade Agreement) signed by Serbia, Macedonia, Croatia, Bosnia and Herzegovina, Montenegro and Moldova, which enables customs free exports of products, including pharmaceuticals, throughout the region.

**VELEFARM OFFERS AMPLE GROWTH OPPORTUNITIES**

**Organizational Structure**

Velefarm operates 10 business centers throughout Serbia with the main distribution center located in Belgrade, two in Bosnia and Herzegovina (Bijeljina and Banja Luka) as well as one in Montenegro (Podgorica) with a total storage capacity of 45,000 m² and office space of 10,515 m².

The business centers operate as self-dependent units that are in charge of the supply of specific regional areas and local customers.

Velefarm's business centers include storage and office space as well as supporting departments.

All business centers and warehouses use state-of-the-art equipment to facilitate a fast and efficient movement of goods.

Velefarm also operates consignment stocks for ready supply of imported pharmaceuticals (e.g. Pfizer, Novo Nordisk, Glaxo Smith Kline and Bayer-Schering).
The fleet of Velefarm comprises 171 vehicles (87 trucks and 84 passenger vehicles) offering a high degree of flexibility for deliveries throughout the key regions and for time-critical supply.

Through its distribution network, Velefarm delivers c. 7,150 pharmaceuticals to more than 1,500 customers covering a network of c. 2,600 points of sales.

**Current sales and growth strategy**

In recent years, Velefarm was able to continuously increase sales totalling to € 240 m in 2009, thereby maintaining its leading position in the Serbian wholesale market.

**Sales growth to € 391 m in 2014** will be fuelled by dedicated strategic initiatives that will be implemented by Velefarm between 2010 and 2014:

1. Regional expansion and intensification of existing business activities mainly in Bosna and Herzegovina, Montenegro, Albania, Kosovo and Macedonia to capture full market potential
2. Enlargement of the existing product programs by adding products such as Body & Beauty care as well as Private Label products to meet current customer demand and to develop to a "one-stop shop"
3. Integration of new sales channels such as retail chains, trade shops and kiosks to fasten and improve market penetration and to fully utilize the existing distribution capabilities
4. Implementation of additional service offerings such as labelling and packing for international pharmaceutical manufacturers to push vertical integration and develop new opportunities for growth
5. Introduction of a pharmaceutical waste disposal service for pharmaceutical manufacturers and medical institutions, e.g. hospitals, in the context of a tightening environmental regulatory framework in Serbia and adjacent regions which will prescribe to dispose pharmaceutical waste properly

![Overview sales development (m EUR)](chart.png)

Source: Company information
Especially the sale of medical devices, medical materials as well as new products will gain importance for Velefarm; however, all other product categories except for domestic medicine will also show double digit growth figures in the upcoming years.

**OWNERSHIP STRUCTURE OF THE COMPANY**

*Top 5 shareholders according to the number of shares*

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Number of shares</th>
<th>% of total issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>FARMACIJA - PLUS DOO</td>
<td>358,845</td>
<td>23.02%</td>
</tr>
<tr>
<td>2</td>
<td>INVESTFARM DOO</td>
<td>346,767</td>
<td>22.24%</td>
</tr>
<tr>
<td>3</td>
<td>HEMOFARM</td>
<td>322,004</td>
<td>20.65%</td>
</tr>
<tr>
<td>4</td>
<td>REPUBLIKA SRBIJA</td>
<td>155,315</td>
<td>9.96%</td>
</tr>
<tr>
<td>5</td>
<td>INVEST-INVEST D.O.O.</td>
<td>127,643</td>
<td>8.19%</td>
</tr>
<tr>
<td>6</td>
<td>1476 small shareholders</td>
<td>248,521</td>
<td>15.94%</td>
</tr>
<tr>
<td></td>
<td><strong>Total 1481 shareholders</strong></td>
<td><strong>1,559,095</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: Central Securities Depository and Clearing House (13-June-2010)*

**SCOPE OF TRANSACTION**

The current majority shareholders are keen to dispose their shareholdings in the companies:

1. Farmacija - Plus d.o.o,
2. Investfarm d.o.o and
3. Invest-Invest d.o.o

which hold a combined stake of **53.44%** of share capital of Velefarm A.D. Holding.

Key objectives of the current shareholders with regard to the sale include:

- Attracting investors who will enable Velefarm to become an even more competitive player and to further grow sales and profits
- Timely implementation of the transaction.

**Next step**

- A detailed information memorandum is available upon signing of a confidentiality agreement
- Interested parties will be asked to submit an indicative offer including envisaged financing and valuation after receipt of the information memorandum
- Signing of the transaction is planned by end of October 2010.
CONTACT

All communications and inquiries should be directed exclusively to:

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