

Around the world

MONDAY, SEPTEMBER 20, 2004

BAHRAIN Center for finance and tourism

STRATEGICALLY located in the Persian Gulf off the coast of Saudi Arabia, Bahrain is in the process of becoming a global hub for business, finance, and investment, and a gateway between East and West.

The mini-city of impressively designed modern buildings currently under construction on the waterfront of Manama will provide the

Continued on page 2



NEW ZEALAND Focusing on innovation and growth

ECONOMIC integration with the rest of the world is the key to prosperity for New Zealand. The South Pacific nation aims to succeed in global markets by uniting home-grown entrepreneurial flair with its talent for innovation.

The country's economic foundations are strong, and New Zealand enjoys a highly productive, developed market economy, with high levels of employment. Adherence to sound monetary and fiscal policies ensures price stability and low



inflation, creating a favorable environment for business.

The government's long term objective is to return the country's per capita income to the top half of the OECD and to keep it there. While this will not be achieved overnight, the process of establishing a pattern of growth that is sustainable economically, socially, and environmentally is well under way.

Given New Zealand's limited domestic market, growth has to come

Continued on page 3

CONTENTS

BAHRAIN

Billions of dollars are being invested in major projects to boost the tourism industry

PAGE 2

NEW ZEALAND

Uniting entrepreneurial flair with a talent for innovation brings success in global markets

PAGE 3

HUNGARY

Increasing its competitive edge to take advantage of heightened prospects for attracting foreign investment

PAGE 5

CROATIA

With a new dynamic vision, the country is on course to meet its twin foreign policy goals of NATO and EU membership

PAGE 8

HUNGARY New prospects for old advantages

AS OF MAY 1, 2004, Hungary is an official member of the European Union (EU), now a club of 25 nations. There are many advantages to be gained from this new position, including heightened prospects for attracting foreign investment, an increase in transparency, and a boost to the country's main export mar-

kets. On the other hand, this holds for the nine other countries which joined at the same time, and Hungary will



have to increase its competitive edge in order to reap the maximum benefits.

Against a longer-term background of strong growth and massive inward investment levels, 2001 and 2002 saw Hungary's economy taking a downturn from which it is now beginning to recover. In part, the economic slowdown in European and world

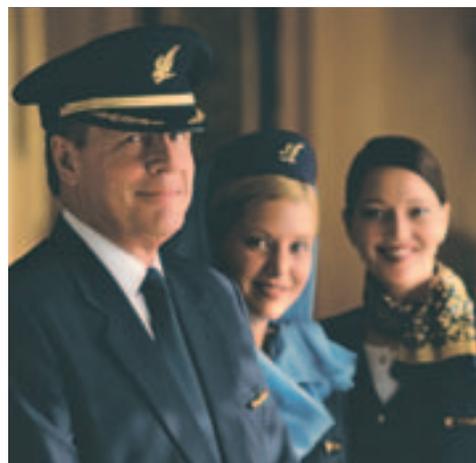
Continued on page 5

CROATIA Creating a new entrepreneurial drive



CROATIA has come a very long way since declaring its independence from Yugoslavia in 1991. The transition to a stable democracy and the implementation of a market economy have been gathering speed since then, and now, under a prime minister who combines leadership and vision with the ability to make the government work as a team, this dynamic nation has its

Continued on page 8



OVER 45 DESTINATIONS WORLDWIDE

Athens — Cairo — Al Ain — Dammam — Riyadh — Abu Dhabi — Islamabad — Bangalore — Delhi — Dhaka — Bangkok
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BAHRAIN

Center for finance and tourism

PREEMINENT IN BANKING, THE ISLAND KINGDOM OF BAHRAIN IS NOW DIVERSIFYING AND BROADENING ITS APPEAL AS A SERVICES PROVIDER

Continued from page 1

kingdom with an international financial center second to none, and consolidate its position as the financial services hub of the Middle East. The \$1.3 billion Bahrain Financial Harbor Project will house the stock exchange, as well as banks and financial institutions from around the world.

Bahrain is home to almost 100 commercial banks, together with investment houses, offshore banking units, representative offices, money and foreign exchange brokers, and insurance companies. The kingdom aims to become the leading center for Islamic banking, which, according to the General Council for Islamic Banks and Financial Institutions (GCIBFI), based in Manama, is growing at an annual average rate of 10%-15%. It already boasts the largest concentration of Islamic financial institutions.

Bahrain was the first Gulf state to discover oil. However, reserves are limited and production now relatively modest, although the kingdom refines a large quantity of oil from Saudi Arabia. As an alternative, Bahrain has been developing a diversified economy, with the focus on becoming an international and regional services provider.

Economic performance has recently been beyond all expectations. According to Finance and National Economy Minister Abdulla Hassan Saif, GDP growth in 2004 could top last year's remarkable increase of 6.8%. The minister attributes the increase to improvement in the non-oil sectors. Foreign direct investment (FDI) is being targeted to develop information technology

and telecommunications, healthcare, education and training, tourism, and downstream industries, in addition to banking and financial services.

Significant progress has been made in efforts to open up the economy. In July, the kingdom became the first fully liberalized telecommunications market in the region.

In terms of political freedom and the

TOURISM. BILLIONS OF DOLLARS ARE BEING SPENT IN A BID TO ATTRACT MORE VISITORS FROM THE REGION AND BEYOND

The Land of a Thousand Smiles

BAHRAIN's liberal, cosmopolitan atmosphere and relaxed blending of traditional Arab culture and Western-style entertainment and nightlife have made it one of the most popular tourist destinations in the Gulf.

The kingdom currently receives around 4 million visitors a year. Most are from other countries in the region, crossing into the kingdom via the King Fahd causeway that links Bahrain with Saudi Arabia.

Tourism currently accounts for around 11% of Bahrain's GDP. The government sees the potential for this to rise to 20%, and is actively promoting the country's image as "The Land of a Thousand Smiles." The aim is to attract increasing numbers of visitors, not just from within the region, but also

services. English is widely spoken and the people are known for their friendliness and hospitality.

A range of tourism activities is being developed, ranging from leisure, sporting, and recreational to historical and cultural, and the kingdom has already established itself as a regional convention center for MICE (meetings, incentives, conventions, and exhibitions) tourism with state-of-the-art facilities. A liberal visa policy offers easy access to business and leisure visitors from the United States, Canada, Western Europe, Australia, New Zealand, and Japan.

In April, the first ever Formula One Grand Prix in the Middle East was held at Bahrain's new world-class motor racing complex, and there are plans

for a state-of-the-art international horse racing track. Bahrain International Airport had the busiest year in its history last year, and is undergoing a major expansion at a cost of more than \$170 million, aimed at raising its annual passenger capacity from six million to 15 million.

Gulf Air, the national carrier of Bahrain, Abu Dhabi, and Oman, plays a key role in the development of tourism in the region. The 54-year-old airline is in the middle of a three-year strategic plan designed to transform its corporate identity and upgrade every aspect of its operation. Last year, the three owner states injected some \$240 million into the airline.

"Our aim has been to become

way for a free trade agreement (FTA) with the United States, announced in June. The FTA will open the American market to Bahraini exporters and heighten the kingdom's appeal as a destination for foreign investment.

distinguishable from our competitors with a unique customer-focused model built around the concept of Arab hospitality," explains President and Chief Executive Officer James Hogan. "The starting point is the customer. We are customer-centric in everything we do."

Innovative new services have been introduced to increase passenger convenience and comfort, including self-service check-in kiosks, SMS travel notification, in-flight nannies, and new cuisine with a Middle Eastern flavor. The airline is unique in employing 5-star chefs in first class.

The results so far have been impressive. Gulf Air is carrying record numbers of passengers, despite the turbulence experienced by the airline industry caused by the Iraq war and the SARS virus. Losses have been reduced by 50%.

"The changes we have implemented have made a quantifiable difference to the commercial operation of the airline," says Mr. Hogan. "Precise market segmentation and a program to serve each segment more precisely has been key to this success and to the process of recapturing our market share."

Based in three centers—Bahrain, Abu Dhabi and Muscat—Gulf Air is building on its strong regional network, increasing flight frequencies and flying to more destinations in the Gulf, Africa, the Indian subcontinent, the Far East, and Australia. The airline aims to increase flights to Europe, and eventually to link up with American cities. There are plans to almost double the size of the fleet to 60 aircraft by the end of the decade.



One of the region's most technologically advanced countries, Bahrain boasts its first fully liberalized telecommunications market



GULF AIR

National carrier Gulf Air is expanding its network and plans to almost double the size of its fleet by the end of the decade

from other parts of the world.

Private investment is encouraged and large tracts of land and sea have been set aside for development. Bahraini and Saudi investors have shown their confidence in the sector by backing a series of major tourism projects. Billions of dollars are being spent on the construction of deluxe, family-oriented resorts with five-star hotels, artificial islands, recreation facilities, commercial complexes, and sports centers.

An archipelago of 33 islands, Bahrain has much to offer as a destination for tourism. It has a unique history and heritage, and is known as the home of the 5,000-year-old Dilmun culture. It is safe and secure, with well developed transport and telecommunication

A close relationship based on cooperation and trade

THE United States maintains close relations with Bahrain, which it regards as an important strategic partner. The U.S. Navy's Fifth Fleet is headquartered in Manama, and the two countries signed a defense cooperation agreement following the first Gulf War. In 2002, President Bush designated Bahrain as a major non-NATO ally, and the kingdom was one of several key Arab and African states invited to attend the G8 summit in June.

Economic links are also strong. The United States is one of Bahrain's largest export markets. Bilateral trade totaled more than \$887 mil-

lion in 2003. Foreign direct investment between the two countries amounts to nearly \$195 million, and many U.S. banks and companies use the kingdom as a base for regional operations.

Bahrain is a member in a number of international organizations, including the United Nations, the International Monetary Fund, and the World Trade Organization. It also belongs to important regional organizations, such as the Cooperation Council for the Arab States of the Gulf (GCC), the League of Arab States, and OPEC.



JAMES HOGAN
President
and CEO of
Gulf Air

Around the world

3

NEW ZEALAND

U.S. niche market opportunities are targeted

TRADE. STRENGTHENING CONNECTIONS WITH THE WORLD ECONOMY AND A STRATEGIC APPROACH TO SELLING HIGH VALUE PRODUCTS TO OVERSEAS CUSTOMERS

GEOGRAPHICAL isolation and their nation's small size have encouraged New Zealanders to come up with creative ideas and the confidence to try them out. Expertise and innovation are national strengths in both primary and niche manufacturing industries.

The government has identified information and communications technology (ICT), biotechnology, and creative industries as areas in which New Zealand has competitive advantages and can offer internationally sought after products and services.

The new trade and economic development agency, New Zealand Trade and Enterprise, is committed



JOHN BONGARD
Managing
Director of
Fisher & Paykel
Appliances

to helping businesses grow their international competitiveness, profitability, and capability.

Tim Gibson, the agency's CEO, says, "We need to get a lot more people seeing what we are capable of in both our traditional and our emerging industries."

A key objective is to establish a strong connection between global market opportunities and the business capability of New Zealand's sectors and regions.

"One of the key things we are looking to do is to become much more strategic and proactive in identifying early what our niche opportunities could be, either in terms of

helping to create a demand or responding to a demand that is already there."

The U.S. market is of major importance. "A niche opportunity in a market as large as the United States could absorb the whole capacity of a particular New Zealand industry," says Mr. Gibson. He points to the whitegoods manufacturer Fisher and Paykel Appliances as a prime example of a New Zealand firm that is succeeding in establishing a global reach and reputation for high value, innovative products.

Auckland-based Fisher and Paykel's primary markets are New Zealand and Australia; the company earns some \$600 million a year in export revenues—more than New Zealand makes from the marine industry, and several times the export

earnings from wine. In 2002/03, the firm sold a record one million appliances in a single year for the first time.

Sales have been rising rapidly in the U.S. market, which accounts for 19% of Fisher and Paykel's exports. Managing Director John Bongard says, "We want to grow the U.S. part of our business, and the key to our future in the United States—without a doubt—is going to be new innovative products."

The company's commitment to continuous development has produced four notable technology breakthroughs: the computerized Smart Drive washing machine; DishDrawer technology for dishwashers; the Active Smart system for controlling refrigerators; and the SmartLoad top-loading clothes dryer, launched last year.

"We hold just over 400 patents in our portfolio and we have at least 200 pending," says Mr. Bongard. "We have projects ongoing between three and five years into the future, and some even up to eight years. We are not short of ideas."

He adds, "We want our customers to choose our products because they are the best, not because they are the cheapest. What drives us is the quality of the products and the quality of the innovation."

Last year, Fisher and Paykel formed a strategic alliance with the Whirlpool Corporation, the world's leading manufacturer and marketer of major home appliances. This alliance will provide Fisher and Paykel with greater access to global markets through Whirlpool's extensive distribution system.

A strategy for milking the market

NEW Zealand is the lowest cost supplier of commodity dairy products in the world—a competitive advantage that Fonterra, the country's biggest firm, and the world's largest exporter of dairy products, has pledged to defend "aggressively."

Only 5% of Fonterra's production goes to the domestic market; the other 95% is exported. Fonterra sells its products to 130 countries, accounting for almost 40% of the international dairy trade. The company's largest single market is the United States.

"We have a very sophisticated international network," says CEO Andrew Ferrier. "There is nobody better placed in the international dairy marketplace."

The farmer-owned cooperative has set itself the tasks of increasing efficiency and raising productivity. "We expect our production to grow and we expect to expand our



ANDREW FERRIER
CEO of Fonterra

presence in the world market," says Mr. Ferrier.

Fonterra invests more than US\$60 million annually in R&D, and is focusing on developing innovative consumer products with health and nutritional benefits, the fast-growing speciality ingredients market, and the market for convenience food products.

"It is all about building our relationship with the customers, and producing the products they actually want," says Fonterra's Chairman, Henry van der Heyden.

The company is investing heavily in its supply chain infrastructure, and since 2000 has been engaged in a profitable partnership with Dairy Farmers of America (DFA). The 50/50 joint venture has eight U.S. factories.

Mr. van der Heyden says, "The partnership with Dairy Farmers of America is absolutely critical, and we are really building on it."

Focusing on innovation and growth

Continued from page 1

from overseas trade, and the drive is on to develop new products, services, and markets. "We are on the way to becoming a more innovative, confident, and flexible economy which is able to compete on the international scene," says Prime Minister Helen Clark. "We have got to look out, not in."

New Zealand has diversified its trading patterns considerably over the last quarter of a century, and while traditional dairy and meat exports still account for a high proportion of export earnings, industries such as forestry, horticulture, fishing, and manufacturing have become increasingly important. Successful new industries have emerged in areas such as

software, biotechnology, electronics, the marine industry, education exports, and wine.

The showcasing of New Zealand's spectacular natural landscape in the blockbuster *Lord of the Rings* movies, and the hosting, for the second time, of the Americas Cup in 2003, have raised the country's international profile, and given a huge boost to its tourism industry.

New Zealand is doing increasing amounts of business with the United States, which is now its second largest trading partner. Total bilateral trade between the two nations has more than



HELEN CLARK
Prime Minister
of New Zealand

doubled over the last fifteen years, and New Zealand is eager to start negotiations on a free trade agreement.

Phil Goff, Minister of Foreign Affairs and Trade, Justice, and Pacific Island Affairs, says, "Such an agreement would formalize what is already a very close relationship between us."

Tim Gibson, CEO of New Zealand Trade and Enterprise, believes that U.S. markets offer considerable potential for the country's exports. "Awareness of New Zealand in America is probably higher now than it has ever been," he says.

"The Best Bank in New Zealand"

ASB BANK is proud to have been recognized as the Best Bank in New Zealand by the international magazine "The Banker" in 2002 and 2003.

ASB BANK is a full service bank offering financial services to personal, business, rural, corporate, and institutional customers alike. For more information on the Bank that is dedicated to providing its customers with excellence in service, visit our website at www.asbbank.co.nz



Banks thrive in positive economic climate

FINANCE. CENTRAL BANK KEEPS INFLATION DOWN AND OVERSEES A PROFITABLE AND EFFICIENT BANKING SECTOR DOMINATED BY AUSTRALIAN INSTITUTIONS

IMPRESSIVE growth in New Zealand's economy in recent years has been underpinned by a floating exchange rate, deregulated financial markets, sound monetary and fiscal management, and a business-friendly climate within which investment is encouraged.

The financial system has undergone significant changes over the past two decades as publicly owned banks have given way to private, foreign owned institutions. Today,



G. HUGH BURRETT
Managing Director of ASB Bank

Australian-owned banks are dominant. Asset growth has been supported by the strong performance of the New Zealand economy, and the sector is profitable and efficient.

With 18 banks operating in a small market, the industry is highly competitive, and mergers and acquisitions may take place in the future. Recently, two major banks joined forces, with the acquisition of the National Bank by the ANZ Banking Group, although both are likely

to maintain their separate identities for the foreseeable future.

Banking supervision in New Zealand is based on disclosure and market discipline and is overseen by the Reserve Bank of New Zealand (RBNZ), the country's independent central bank. RBNZ also has the responsibility for formulating and implementing monetary policy in line with targets agreed with the government.

The target range for inflation is set at between 1% and 3%. In June, RBNZ raised the Official Cash Rate (OCR) from 5.5% to 5.75%. The bank's Governor, Alan Bollard, said a rise in interest rates



Today's New Zealand is an affluent, creative, business oriented country with a can-do attitude

was necessary to ensure that inflation remains comfortably within the target range over the medium term.

Michael Cullen, Deputy Prime Minister and Minister of Finance and Revenue, expresses confidence about the medium term outlook for the economy. Dr. Cullen says, "We will have our ups and downs, particularly as the dollar rises and falls, affecting the trading sector, but we have shown

the capacity to adapt and find new markets and move into new areas successfully."

Dr. Cullen argues that New Zealand possesses a range of advantages that make it an attractive destination for foreign investment. Labor costs and land and building costs are generally lower than in Australia.

"New Zealand is not heavily taxed by developed country standards," says the minister. "We

have an average corporate tax rate, no inheritance tax, no general capital gains tax, no stamp duty, and, basically, no payroll tax.

"We offer a stable political environment and a skilled labor force. We have good communications systems and, in areas such as financial services, some very distinct time zone advantages. Overnight work can be done here during the day, so that it is ready for customers in their own country the next day. There is huge potential in some of these areas."

G. Hugh Burrett, Managing Director of ASB Bank, one of New Zealand's leading financial institutions, agrees the country has a lot to offer potential investors, and a stimulating business environment.

"By investing in New Zealand you are investing in a high quality asset," he says. "The country has so much going for it in terms of the geography, the people, and the capacity that is still available here."

Mr. Burrett echoes a Global Entrepreneurship Monitor study that ranked New Zealanders among the most entrepreneurial people in the world.

"New Zealanders are pretty canny entrepreneurs," he says. "We operate businesses leanly, meanly, and effectively and we breed managers and leaders who are very good at pulling together all the threads of an organization and driving it ahead."

The former New Zealand Stock Exchange (NZSE) has undergone demutualization and rebranding, emerging as a new company with a new name: NZX. The change has produced a company with a more commercial focus, and with an improved ability to raise funds—particularly important as technology becomes ever more advanced and accessible.

Putting the customer first pays off

DEDICATION to building customer satisfaction is the guiding principle at ASB Bank, one of the country's leading financial institutions.

It is an approach that pays dividends. Growth in all parts of the business has been at record levels, annual operating surpluses are regularly up by more than 20 percent, and over the last three years assets have risen by 50%, from NZ\$20 billion to NZ\$30 billion (US\$18.7 billion).

Established in 1847 as the Auckland Savings Bank, ASB Bank is part of ASB group, which is owned by the Commonwealth Bank of Australia (CBA). Over the last 20 years, the bank has steadily expanded its activities and ca-

pabilities, and now has 120 branches across New Zealand. From being exclusively a savings and loans bank, it has become a key banker to the business community and the country's third largest rural lender.

Willingness to make use of the latest technology has always been one of ASB Bank's defining characteristics. It went online real time in 1969, way ahead of other Australasian banks, and in 1981, it launched New Zealand's first automatic teller machines (ATMs).

It followed this with the country's first Eftpos system three years later, and with telephone banking in 1988. In 1997, the bank launched New Zealand's first internet banking service, and, in 1999,



ASB BANK has become a key banker to the business community

led the way in securities trading on the internet with the launch of ASB Securities. "Technology has been a great enabler for us," says G. Hugh Burrett, the bank's Managing Director.

ASB Bank's goal has always been to be the best rather than the biggest. "Our vision is to be New Zealand's best bank and financial services provider," says Mr. Burrett.

ASB Bank has won a string of awards for customer satisfaction and has been judged Best Bank in New Zealand for two consecutive years by The Banker magazine.

Mr. Burrett says the bank continues to put the customer first. "Our secret is to stay close to the market. We still have huge opportunities to understand our customers' needs and deliver to them, given the range of services we have now. It will always be a challenge to get the level of satisfaction up."

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The research behind sustenance
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ViaLactia Fonterra
Improving the nutritional dairy cycle
www.vialactia.com

HortResearch
Science discovering the goodness in fruit
www.hortresearch.co.nz

Around the world

5


**Research in the lab
can be used to
develop biotech
business**

cluding particularly on the development of fruits and fruit-based products with convenience and health generating properties.

"Currently, fruit is mainly sold on the basis of taste and texture," says CEO Paul McGilvary. "In the future, we think it will be sold a lot more on the basis of its health properties and its convenience aspects—for example a kiwi fruit you can eat without peeling. If the market wants to build around those kind of things, we have the science to do them."

HortResearch has recently reoriented its strategy toward a closer integration of science and marketing, and has created a business unit that specializes in selling the organization's intellectual property.

"Most of our varieties are commercialized globally. For example, our kiwi fruit variety is grown in California and Italy by our commercial partner, Zespri. With berries, we do most of our work in North America. We have partners in the Pacific Northwest, Oregon, and Washington State."

AgriGenesis, a leading company in the development of agricultural products through plant biotechnology, has set its sights on "significant commercial targets across multiple species markets," according to its Chief Executive, Peter Lee.

After ten years in the business, the company has developed a range of products for use in the agriculture, forestry, and energy industries, and is seeking partnerships with large institutional investors. Its portfolio concentrates on the application of biotechnology for industrial purposes. These include the industrial application of natural proteins to benefit the freezing and

Science goes to market

BIOTECHNOLOGY. NEW ZEALAND HAS A WORLDWIDE REPUTATION FOR ITS SCIENCE AND TECHNOLOGY. NOW IT IS DEVELOPING INCREASINGLY COMMERCIAL USES FOR ITS INNOVATIVE RESEARCH AT HOME AND ABROAD

THE rapidly growing biotechnology sector is one of New Zealand's brightest prospects and investment opportunities. Links between science and business have been strengthened as companies focus on developing the commercial potential of their research. Partnerships are being sought with American firms to develop and market commercially viable products in the U.S.—one of the world's largest biotechnology markets.

"What we are seeing now is an increase in the ability of research organizations to get the right science, take it out, and develop it for an end use in the market place," says Paul Tocker, Chief Executive of Crop & Food Research, one of New Zealand's nine Crown Research Institutes (CRIs).

The CRIs are collectively the country's largest science enterprises. Crop & Food researches sustainable land and water use, high performance plants, personalized food products, high value marine products, and new biomolecules and biomaterials. The institute works with a number of multinational firms.

"There has always been a market for our lamb and our beef," says Mr. Tocker. "Now there is more competition internationally, and consumers are more discerning, so we have to move into being more market focused. Agriculture is a science industry, and we have world leadership in some parts of that science."

This importance of a commercial focus is emphasized by Colin R. South, Chief Executive of ViaLactia, the independent research and development subsidiary of the multinational dairy company Fonterra. Dr. South says New Zealand needs to build on the worldwide reputation it has established.

"The quality of our science is well known internationally. That needs to be developed into things that represent a viable biotech business sector, as op-



PAUL MCGILVARY
Chief Executive
Officer of
HortResearch



PETER LEE
Chief
Executive of
AgriGenesis



PAUL TOCKER
Chief Executive
of Crop & Food
Research

posed to a viable biotech research sector."

ViaLactia's aim is to be "the preeminent source of innovative biotechnology for the global dairy industry." Dr. South believes this is best achieved by forming partnerships.

"Partnering accelerates the discovery and commercialization of new products. ViaLactia works with the best in the world. We have 23 partners in more than 11 countries, so we are very diversified and as flexible as we can be in terms of adoption of new technologies and access to providers who can give us access to cost-effective research."

HortResearch, a CRI specializing in fruit research, is fo-

evaporation of water, which are important to the production of most products; and the replacement of inorganic chemistry with enzymatic and microbial processes in industrial operations, such as those needed to cost effectively convert biomass to liquid fuels and to provide alternative sources for resins, coatings, and adhesives normally derived from oil.

AgriGenesis makes extensive use of focus groups and outside specialists and consultants to tailor its products to market requirements. "The best way to market a product is to have experts tell you how they would create value out of it," says Mr. Lee.

HUNGARY

New prospects for old advantages



HNTO is in charge of promoting Hungary's magnificent sights in an expanded European market

IMPROVEMENTS ARE IN FULL SWING IN ONE OF EUROPE'S MOST PROMISING NEW MEMBER STATES. THE FIGURES SPEAK FOR THEMSELVES

Continued from page 1

economies resulted in a reduction in export market share for Hungary, but the slump was further exacerbated by internal policy. The current account deficit doubled, the forint (HUF) strengthened against the euro, and inflation was too high. In addition, a near doubling of the country's minimum wage led to a marked drop in foreign investment — from around \$3.9 billion annually to \$1.7 billion in 2002.

But the turnaround is already in full swing, with the government implementing major fiscal and income policy changes to improve competitiveness

and reduce the budget deficit. GDP growth began to accelerate in the second quarter of 2003 and reached 3.6% in the last quarter — The Economist Intelligence Unit predicts GDP growth of 3.4% in 2004 and 3.9% in 2005. A marked decline in inflation is expected in the second half of this year.

The Finance Ministry has been creating a more transparent tax credit system: corporate tax has gone down by two percentage points to 16%; local taxes have been reduced as of January 1 this year; and while sales tax is among the highest in Europe at a maximum of 25%, the top rate of income tax has been brought down to 38%, which will be

one of the lowest levels among accession countries.

Hungarian export markets are expected to expand substantially in 2004-2005; FDI is expected to average around \$1.77 billion per year between

now and 2007, and, as well as a planned reduction in bureaucracy generally, the new 'one-stop shop' for investors will help to increase the country's credibility and predictability.

Hungary believes that the fiscal criteria for joining the euro area can be fulfilled by 2008, and if the inflation criterion can be met at the same time, the country will be able to adopt the euro relatively safely in 2010.

Nonetheless, increased links



LÁSZLÓ KOVÁCS
Minister of
Foreign Affairs

Continued on page 6

Hungary's Land Credit and Mortgage Bank (FHB) is a modern, rapidly-developing bank, striving toward international standards. With a majority state-owned structure, the bank provides mainly residential mortgages and refinancing, and plays a key role in implementing the government's housing policy in Hungary.

Best banking guaranteed

Land Credit and Mortgage Bank Ltd (FHB)
H-1132 Budapest, Váci út 20, H-1908 Budapest
Tel: +36 1-452-9100, Fax: +36 1-329-1004
www.fhb.hu, Email: fhb@fhb.hu

FHB
Land Credit and Mortgage Bank Ltd

PRIVATIZATION IS A FUNDAMENTAL PART OF HUNGARY'S INCREASINGLY INVESTOR-FRIENDLY BUSINESS SCENE

World-class openings as liberalization enters final stage

AS PART of the drive to establish a market economy on the basis of private ownership, improve the efficiency of business management, and strengthen competition, privatization in Hungary is now entering its fourth and final phase. The first

two phases saw the sale of high-performing, marketable firms and large strategic companies; from 1997, the process focused on capital market transactions and the privatization of minority stakes. The private sector now accounts for

85 percent of Hungary's GDP.

Sale and management of remaining state assets come under the aegis of the Hungarian Privatization and State Holding Company (APV). In particular, APV works at marketing offers to private investors who can guarantee the efficient and long-term operation of the companies up for sale.

APV currently holds stakes in 157 companies, a number expected to drop to 86 this year; the most significant sales will involve shares in pharmaceuticals firm Richter Gedeon and broadcasting company Antenna Hungaria. For the moment, there are no plans to sell the national airline Malev or the national lottery company this year. MAHART, the shipping and water-transport company, was due to be privatized at the end of 2003, and the process is ongoing.

The Hungarian Oil and Gas Company MOL, which posted record earnings in the first quarter of 2004, and the Land Credit and Mortgage Bank (FHB) are still mainly state owned, although both have sold and are selling parts to private investors. In early June this year, MOL sold 3,200 shares on the Budapest Stock Exchange



DÁNIEL GYURIS
Chief Executive
Officer of FHB

(BSE) while FHB executed another private placement of covered mortgage bonds. "Concerning our active participation on the international bond market and fixed income market, we have already started addressing foreign investors," says Dániel Gyuris, FHB's chief executive officer.

Mr. Gyuris believes that Hungary's entry into the EU will allow national commercial banks to maximize their profitability by seeking niche markets. The possibility of new mergers is also on the cards. "We are hoping that these synergies will bring more benefits for FHB in the future," he says. A specialized mortgage bank recognizing its role in the local market, FHB is one of the country's biggest successes, with return on equity for the first nine months of 2003 at close to 40%. The bank acts as a neutral service provider to partner banks – nearly half the Hungarian banking sector – and insurance companies. As of June, the bank will launch new, foreign-currency denominated mortgage loans.

According to an International Monetary Fund report from January 2004, Hungary's financial sector is basically sound. Banks have remained adequately capitalized and liquid, profitability has been solid, and the quality of banks' loan portfolios has remained broadly stable, despite a slight dip in corporate lending quality. One possible cause for concern is the excess of subsidized loans, although so far this has only meant that banks have managed to retain a four percent interest margin despite fierce competition. However, as the rate of lending activity exceeds that of household savings, banks may find it increasingly difficult to secure the necessary financial resources.

Mr. Gyuris points out that there are still plenty of investment opportunities in the services sector. In addition, EU accession will bring advantages. "As of May 2004, there will be modifications in fiscal policy, especially concerning taxes, in which case the government will create more flexible policies to the advantage of foreign investors," he says.



The Land Credit and Mortgage Bank (FHB), one of the country's greatest success stories, is seeking new international synergies

New prospects for old advantages

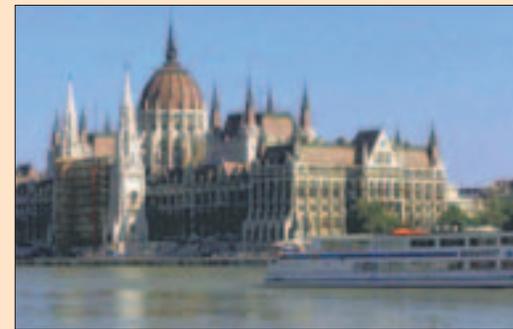
Continued from page 5

with Europe do not make Hungary liable to forget its second-largest investor and number one non-European trade partner. "More Europe does not mean less of the U.S.," says László Kovács, Minister of Foreign Affairs. In fact, Mr. Kovács sees existing ties be-

tween the two nations strengthening as a result of EU accession, with additional advantages for U.S. investors. Hungary's position in the center of Europe would allow multinationals to operate their Hungarian subsidiaries as Southeast European regional centers.



Danube anchors major transportation hub



MAHART is aiming to put Hungarian inland water shipping at the head of Europe's transportation services

LANDLOCKED Hungary does not immediately spring to mind as the perfect location for a thriving shipping industry and a port of international caliber, but its geographical position in the heart of Europe and the navigational properties of the Danube River combine to make Budapest a veritable hub for water transportation and logistics.

And, in line with the government's privatization policies, the company which controls most of the activities to do with the shipping industry, MAHART Hungarian Shipping Company Ltd., is to be put up for sale – not before time, in the opinion of László Somlóvári, the company's CEO since 2001. Decades of missed opportunities mean that a significant shake-up is required to establish the Freeport of Budapest as one of Europe's busiest and most modern ports.

MAHART was formed in 1955 by the merger of five companies. As part of the privatization process, the company has been separated into corporate entities for different activities. "Currently, MAHART has four main areas of operation: river shipping; operation of the free port; operation of a shipyard and repair facility; and asset management," says Mr. Somlóvári.

In October 2003, Mahart Duna Cargo Kft started operations, taking over the entire fleet and the shipping personnel. In addition, real estate company M-Ingatlan Rt and freight-forwarding company Mahart-Freeport Rt were registered as separate enterprises, leaving MAHART Rt as a ship manufacturer and water transport company.

Mr. Somlóvári believes that

the company needs to improve its fixed assets, divest itself of unused capacity, modernize and diversify its fleet, and develop loading and trans-shipment appliances and material conveyors, as well as reconstructing ship-mending equipment.

On the plus side, MAHART is confidently up to date in information technology and related systems, with human resources also being a prime asset for future competitiveness. In addition, shipping gets bonus points for being the most cost-effective and environmentally friendly way of transporting goods, and, with entry to the EU, there is the possibility of receiving structural funds.

To maximize the port's impact and provide an adequate support network, Mr. Somlóvári would like to see improved connections in road and rail

traffic routes and related infrastructure. Although he believes some areas, notably ownership of the port itself and construction of basic facilities, should remain in state hands, he sees plenty of scope for private investors. "The main areas of development that typically involve private capital are installing cargo-handling equipment, such as cranes and forklifts, and offering such services," he says.

Current interest comes mainly from the European side, but Mr. Somlóvári would like to see more U.S. investor interest in providing the \$7-8 million needed to modernize the port's facilities, as he admires American efficiency. "The port is facing an enormous growth potential and I believe that we can triple the turnover in the next five years," he says.



LÁSZLÓ SOMLÓVÁRI
CEO of MAHART

Around the world

7

Creating the right environment for smart investment moves

FROM 1989 to 2002, foreign investors established over 30,000 companies and invested nearly \$24 billion in Hungary; U.S. investment accounted for 14% of the country's FDI in 2000, and 8% in 2001. But from late 2002 to the first half of 2003, FDI levels dropped considerably—in fact, disinvestments by existing companies actually outweighed new investments during that period.

This year, with a new finance minister on board since February, newly-acquired status as an EU member nation since May, and a restructuring of incentives across the economy, Hungary aims to recover its position as a preferred destination for foreign investment.

Although the state has already sold off much of its property, there are still various areas where investment opportunities are good. A strong forint means the import sector is booming, which opens up possibilities in the consumer-goods sector. In turn, the service sector is expected to grow at a reasonable rate, with financial services such as insurance doing particularly well. Some liberalization is expected in the health sector, which is ripe for reform. For all options the Hungarian Investment and Trade Development Agency (ITDH) is on hand to offer free, personalized services for investors and trade partners.

Strengthening investment attraction capability remains one of the government's priorities, and to this effect it has introduced a number of tax reforms aimed at providing a suitable investment environment. In January 2003, it introduced the 'Smart Hungary' program, which provides tax benefits and direct subsidies, both of which are in accordance with EU norms. Development tax credits of 35-50% of the investment are allocated to companies investing \$49 million (\$14 million in disadvantaged areas).

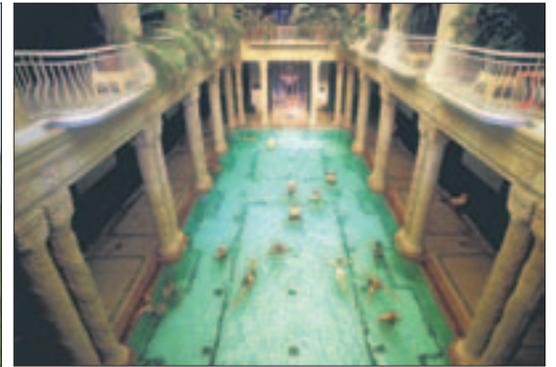


A strong forint has led to a boom in the import sector and in consumer goods

Subsidies are targeted at R&D innovations and intellectual property revenues, in line with the government's focus on promoting domestic R&D activities and stimulating the growth of value-added industries. In addition to this, the government recently lowered the corporate tax to 16% and the top rate of income tax to 38%.

Increased infrastructure development assisted by EU co-financing, a freeze in real wages, the introduction of a single-window administration system for investors, and cuts in government bureaucracy (in its 2004 budget proposal, the government announced 10% and 6% mandatory staff reduction in ministries and background institutions respectively) should also help place Hungary back on an investment-led path to growth.

TOURISM. ENCHANTING CITIES, THERMAL WATERS, AND OUTSTANDING LANDSCAPES TO DISCOVER



Traditions and cultural heritage play a crucial role in modern Hungary. The thermal spa custom remains in good health and attracts thousands

Ready to fascinate the world

IN A LAND that can boast a unique historic fusion of eastern and western cultures spanning more than a thousand years, where the river Danube flows through one of the most beautiful cities in the world, and where medicinal thermal waters lie just below the surface, it is easy to see why tourism represents ten percent of GDP. Hungary's list of attractions doesn't end here, however: it has nine national parks, six World Heritage sites, and the largest freshwater lake in central Europe. Add to this the art, culture, entertainment, and shopping delights available in a sophisticated capital city of two million people, and you may be beginning to wonder why you've never vacationed there before.

"The lack of knowledge about Hungary does lead some people to think of us as being a poor, third world country," says Gábor Galla, General Manager of the Hungarian National Tourist Office (HNTO). Much is being done to eliminate this misconception, particularly in the U.S., where a recent

publicity campaign featuring actor Tony Curtis is highlighting the appeal of the country as a whole, as well as the delights of Budapest. Mr. Curtis, who is of Hungarian descent, took on the work in honor of his parents and to showcase his genuine feelings for the country.

Economically, the main challenge lies in reviving foreign tourist numbers, which dropped in 2003 as a result of global economic recession, especially in key euro zone countries like Germany and Austria. The ongoing economic recovery worldwide should lead to better figures, although Hungary's relatively high VAT rate on hotel and catering services is a potential obstacle. Joining the EU is expected to help the industry by increasing the possibility of regional packages and tours. "We are cooperating with the main tourist attractions in this region, meaning other big cities such as Vienna and Prague, to appear together as a region that can be visited in one trip," says Dr. Galla.

Budapest continues to be

marketed as the perfect city destination, but the HNTO is eager to expand tourism beyond the capital. Lake Balaton, a 50-mile-long lake in the middle of the Transdanubia region, is a popular area, with a large number and variety of resorts. The southern shores are ideal for families

with small children because of the shallow water, while on the north shore the deeper water is suited to sporting activities. As with all Hungarian waters, these have healing properties and are remedies for nervous complaints and anaemia in particular. Western Hungary has more world-famous spas. Pecs in the south is proof of the country's mixed cultural heritage, with Roman-age Christian tombs, Turkish mosques, and a definitely Mediterranean atmosphere. Also in the south, Szeged, the 'Sunny City', is famous for its fish soup, and Hortobagy, a World Heritage Site, is the largest continuous natural grassland in Europe, with outstanding landscape features and a wide range of



GÁBOR GALLA
General
Manager of
the HNTO

species. Eger, in the north, is the source of Hungary's famous wines. As Dr. Galla says, "one cannot get bored easily in Hungary."

One particular aim of the current marketing campaign is to promote Hungary as a long-term destination. "We would like our guests to extend their time in our country," says Dr. Galla. Currently, the average stay for a tourist is 3.5 days, and the HNTO would like to see this figure grow to an average of four days within the next three to four years.

As far as U.S. visitors are concerned, conditions are good in Hungary, as is security. "Americans returning from a Hungarian trip all pretty much leave with a positive experience and very high satisfaction," reports Dr. Galla. Certainly, the existence of a non-stop flight from New York to Budapest with the Hungarian national airline, Malev, should help encourage more U.S. visitors to sample some of the attractions that this country has to offer.

Get to know Hungary, and you may wonder why you've never vacationed there before

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CROATIA

Creating a new entrepreneurial drive

INTERNATIONAL RELATIONS PROVIDE THE COMPASS FOR THE COUNTRY'S FAST-MOVING VOYAGE TO BUSINESS DEVELOPMENT

Continued from page 1

twin foreign policy goals within reach.

The first of these goals is joining NATO; Croatia shares the organization's values, principles, and vision, says Miodir Zuzul, the Minister of Foreign Affairs, who believes membership is likely to become a reality within the next two years. The U.S. has agreed to work with Croatia on several concrete areas such as border security and the armed forces' reform to support the country's application.



MIOMIR ZUZUL
Minister of
Foreign Affairs

The second objective is to join the European Union (EU). Croatia was awarded candidate status on June 18 and will have fulfilled all the necessary criteria, measures, and obligations by 2007, according to Kolinda Grabar-Kitarovic, the Minister for European Integration. "We are undertaking these reforms because we want to improve the standard of living, economic and investment conditions, and the political

climate," she says. The Minister believes that Croatia, as a regional leader in matters of know-how and technology, and one of the most stable countries in the area, has much to contribute to the EU.

Croatia is also very interested in developing its bilateral relationship with the U.S. "Our relations with Washington are of the highest priority," says Mr. Zuzul. He sees these links intensifying both within the context of Europe and as a nation. He would also like to see stronger connections on an economic level. "Croatia is entering a new stage of its

development and needs solid investments," he says. Over the past several years, the U.S. has invested about \$1.5 billion in the country, and it is hoped that this amount will increase.

The current government has taken active measures to support foreign investment by passing investment incentive laws such as the guaranteed transfer of profits. Reducing bureaucracy is another target area, and a one-stop-shop system has been created for both foreign and local investors. The privatization procedure is being accelerated, with the aim of com-

pleting the task in the next five years, and the participation of foreign investors in privatization tenders is actively encouraged. The Ministry of Foreign Affairs' role is to identify potential investors and create the appropriate image to put across to the international business community.

Trade and investment opportunities for U.S. firms exist in Croatia's main growth sectors: energy, tourism, construction, transportation, and telecommunications. With the need to fulfill EU-mandated requirements, there is also an increasing demand for environmental equipment and services. Croatia's President, Stjepan Mesic, underlines the importance of the country's shipbuilding, food-processing, and tourism industries, but adds that know-how should become one of Croatia's main export products, and this means increased investment in education and science.

Boosting production by using new technologies, applying knowledge from other countries, and encouraging a new Croatian entrepreneurship are all elements that will help Croatia achieve equality with other EU members. And, beyond the vision of a unified Europe, Croatia is ready to play its part on the world stage.



Croatians are already reaping the benefits of the nation's determination to become a key reference in the European Union

TOURISM IS THE ECONOMIC CORNERSTONE OF A TRULY UNIQUE MEDITERRANEAN HAVEN

Exclusive and appealing: new image attracts millions

"TOURISM is a good way of changing an image," says Niko Bulic, Director of the Croatian National Tourist Board (CNTB). And tourism is indeed helping the rest of the world to see what the new Croatia is all about. Some things, of course, haven't changed: the centuries-old culture, manifested in architecture and tradition; the cleanest sea in the Mediterranean area, with no over-development or heavy industry to spoil the coastline; and the nature parks and lakes. What has changed is the attitude toward the tourism industry, a change that carries only benefits, both to Croatians and to the tourists who pour in from all over the world.

In fact, Croatia is doing so well in promoting itself that it was the only country in the Mediterranean to register a positive result from tourism in 2003. That year, the industry generated \$6.2 billion in economic activity – 24% of GDP, and a four percent increase on the previous year. "By 2010 we



NIKO BULIC
Director of the
Croatian
National Tourist
Board

expect to reach our strategic goal of 10-11 million visitors a year," says Mr. Bulic.

Behind the drive for expansion is a very strong commitment to sustainable development. The government is striving to attract foreign investors, particularly big players for the hotel industry. "Various deals are possible, private-public partnership included," says Mr. Bulic.

Diversity is being encouraged. "We do not want to sell only sun and sea," says Zdenko Micic, the State Secretary for Tourism. On the one hand, the privatisation of existing hotel companies aims to promote the country as a four- and five-star destination; on the other, the more personal appeal of small-scale accommodation is seen as a good selling point, not to

mention the economic boost this can give local entrepreneurs.

Croatia offers the perfect location for nautical tourism, with its over one thousand islands off the Dalmatian coast. As 90% of tourists come to the coast by car, work is being done to improve the roads infrastructure. A new 30-mile section was recently completed on the Zagreb-Split highway, and the whole road should be finished by next summer. Eventually, a network of highways will connect Croatia to its neighbors, which, along with good ferry connections and nine international airports that are scheduled for development, is good news for tourism.

Cultural tourism, agro-tourism, eco-tourism, adventure tourism, and even winter tourism are being explored. With plenty of snow on mountains such as Sjeme,

the Olympic center for Croatian sportsmen, there is no reason why the country could not become a winter destination, says Mr. Micic. Golf is another option, and the government is working on developing golf courses in conjunction with the adequate facilities. "Because of the climate you can play golf in Croatia the whole year round," says the Secretary.

Europeans, mainly Germans and Italians, are the most frequent visitors to Croatia, but the numbers of U.S. visitors are also growing, thanks in part to increasing numbers of cruise ships. "Every year we are making big steps in the U.S. market," says Mr. Micic.

Tourism is truly Croatia's economic motor. It will allow the country to pay its debts, secure foreign currency, and open new employment opportunities. "Eighty percent of

our exports are connected one way or another to tourism," says the CNTB Director.

Mr. Bulic is justly proud of the changes in image that Croatia has already achieved, and more importantly, the fact that this has been done under its own name. Croatia is now acquiring the popular and attractive image that it merits: beautiful, safe, diverse, and, as Mr. Bulic says, "without additives".



Centuries-old cities that abound with culture and a beautiful coastline are just part of Croatia's attraction for tourists

Europeans, mainly Germans and Italians, are the most frequent visitors to Croatia, but the numbers of U.S. visitors are also growing, thanks in part to increasing numbers of cruise ships. "Every year we are making big steps in the U.S. market," says Mr. Micic.

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