

QUALITY WORKS

SERBIA AUTOMOTIVE INDUSTRY

Serbia Investment and Export Promotion Agency (SIEPA) is the government agency responsible for promoting FDI and export opportunities in Serbia. Companies wishing to establish or expand their operations in Serbia, can obtain tailor made services from SIEPA free of charge.

www.siepa.gov.rs



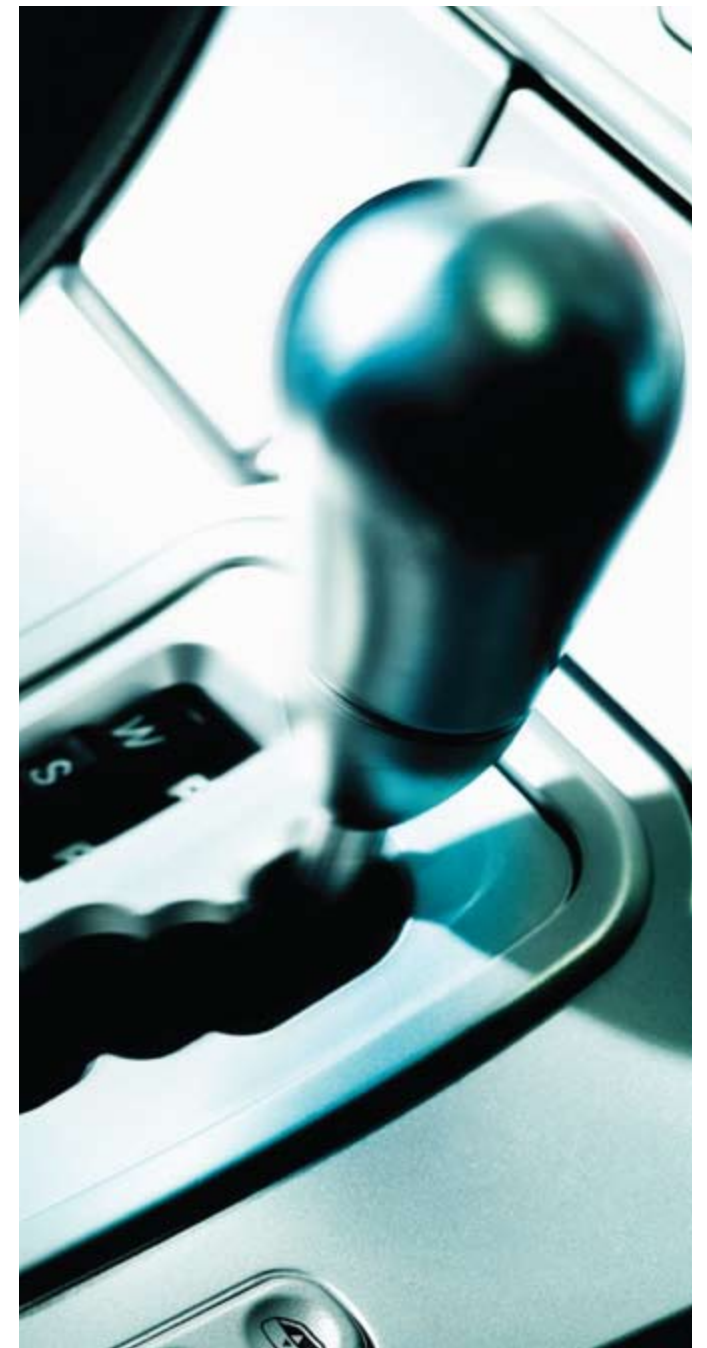
GENERAL DATA

Official Name	Republic of Serbia
Form of State	Democratic Republic
Political Structure	President, unicameral assembly with 250 seats
Area	88,361 km ²
Population	9.5mn
Geographic Position	South East Europe, central part of the Balkan Peninsula, at the intersection of Pan European Corridors N°.10 and N°.7
Border	In the east, Serbia borders Bulgaria, in the northeast–Romania, in the north–Hungary, in the west–Croatia and Bosnia and Herzegovina, in the southwest–Montenegro, and in the south–Albania and Macedonia
Climate	Temperate continental, with monthly average temperatures ranging between 0.7°C in January and 17.5°C in July
Official Language	Serbian
Main Religion	Christian Orthodox
Other Religions	Roman Catholic, Islamic, Jewish, Protestant
Major Cities	Belgrade: 1,576,000; Novi Sad: 298,000; Nis: 250,000
Currency	Dinar (RSD)
GDP (2009)	€ 31,511
GDP pc (2009)	€ 4,304
Time Zone	Central European Time (GMT + 01:00)
Internet Domain	.rs



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THE AUTOMOTIVE INDUSTRY THROUGH THE YEARS

Leading Foreign Investors in the Automotive Industry			
Company	Country of Origin	Investment Type	Euro mn
Fiat	Italy	Privatization	700
Cimos	Slovenia	Privatization	100
Michelin	France	Joint Venture	44
Brikel	Bulgaria	Privatization	37
CGS Tires	Czech	Privatization	22
Albon	Great Britain	Greenfield	18
Leoni	Germany	Brownfield	15
Dräxlmaier	Germany	Greenfield	10
Yura Corporation	South Korea	Privatization	8
Lohr	France	Brownfield	7
Streit Group	France	Brownfield	7
Tesnila	Slovenia	Greenfield	6
Grammer	Germany	Brownfield	4
Bauerhin	Germany	Greenfield	2



The automotive industry in Serbia dates back to 1939 when the first trucks came off the assembly lines in the city of Kragujevac. After the Second World War, this factory was renamed Zastava and it started producing motor vehicles under the licence to FIAT. This was a booming period for automotive suppliers in Serbia, as many component manufacturers were needed to support the growing new industry. Since Zastava was working under strict FIAT quality standards, its suppliers had to adapt to them too. High quality production enabled them to work for other western car manufacturers. Soon, companies like Mercedes, Ford, PSA and Opel were sourcing automotive components from Serbian companies.

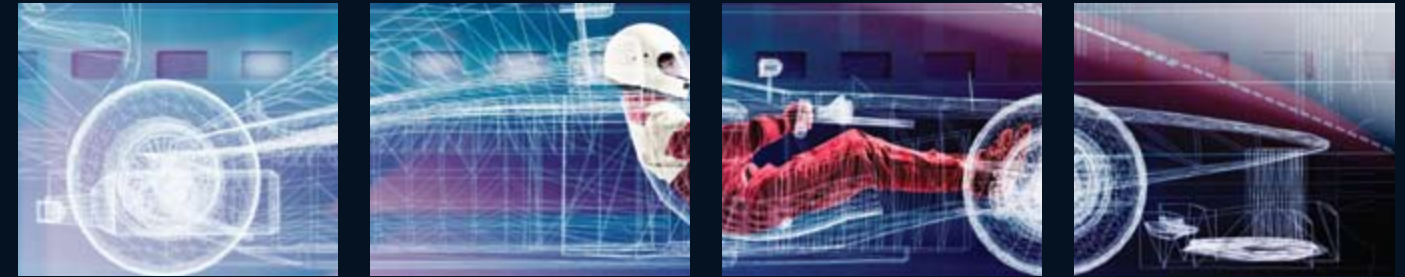
The high point of this industry came in 1989 when Zastava produced roughly 250,000 cars. Zastava cars were exported to 70 countries all over the world, includ-

ing the UK and USA. Unfortunately, the political problems and economic sanctions imposed on Serbia during the 1990s halted the development of this export-oriented sector. The break-up of former Yugoslavia had a big impact on Zastava's existing supply chain, and economic sanctions left it with a severely depleted market. Serbian suppliers faced the same problems: The industry was confined to more or less serving only the Serbian market and reduced profits prevented companies from investing in the development of technologies.

Since 2000, the Serbian automotive industry has rapidly re-emerged. Privatisation, a strong influx of foreign capital, and government support have combined with the experience of Serbian workers to achieve incredible success in an industry which was completely stagnant just a few years ago.



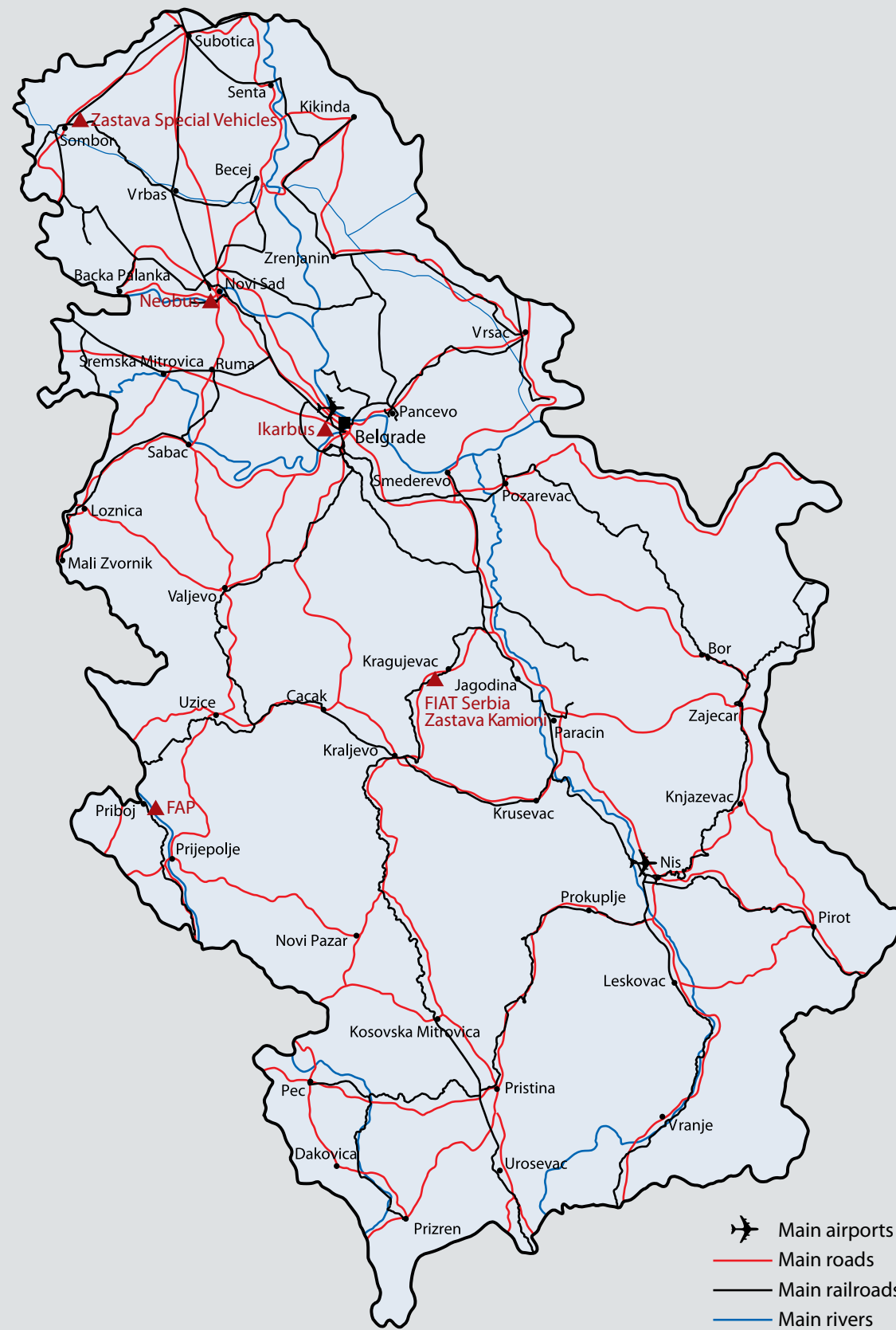
CURRENTLY 6 MOTOR VEHICLE MANUFACTURERS, 70 AUTOMOTIVE COMPONENT SUPPLIERS, 32,000 WORKERS, AND GROWING



VEHICLES MANUFACTURER PROFILES

In 2009, the automotive industry in Serbia consists of six companies manufacturing motor vehicles and around 70 component suppliers. The largest vehicle manufacturer is former Zastava Automobili or, as it is known now, the FIAT Serbia company. The production range of Serbian vehicle manufacturers consists of passenger and commercial cars; and light, medium and heavy trucks and buses. Serbia also has companies that produce trailers, semi trailers or vehicle superstructures. A detailed analysis of these companies can be found in the component supplier section of this brochure.

The six motor vehicle manufacturers in Serbia employed around 4,600 workers in 2009.



Vehicle Manufacturers in Serbia 2008			
Company name	Location	No. of Workers	Product
FIAT Serbia	Kragujevac	1,000	Passenger Cars
Zastava Special Vehicles	Sombor	262	Commercial Cars
Zastava Kamioni	Kragujevac	850	Vans, Trucks
FAP	Priboj	1,611	Trucks, Buses
Ikarbus	Belgrade	764	Buses
Neobus	Novi Sad	212	Buses

Source: SIEPA

BY 2012 – 200,000 NEW PASSENGER CARS/YEAR

VEHICLES MANUFACTURER PROFILES

VEHICLES MANUFACTURER PROFILES

FIAT SERBIA

At the end of the 1990s, the cornerstone of Serbian automotive industry, Zastava Automobili, was in serious trouble. There was almost no technical development, its market had shrunk severely, and annual production had fallen from more than 200,000 vehicles to around 20,000.

The democratic changes in Serbia in 2000 initiated the privatisation process of all state-owned companies. Zastava's strategy was to find a strategic partner among the leading global vehicle manufacturers. To this end, numerous measures were undertaken that would lead to one of largest investment projects in Serbia in the last 20 years.

The first task was programme and personnel reconstruction at Zastava. As a whole, the Zastava company consisted of many production plants, some of which were not only outside the main complex, but outside Kragujevac as well. Many such plants were separated from Zastava and privatised as independent companies. The reconstruction, supported by re-education and a compensation package for the workers, reduced the oversized Zastava company that employed around 14,000 workers during the 90s to around 3,400 in 2007.

In 2005, the FIAT Group and Zastava signed a cooperation contract to assemble SKD cars in Zastava. To this end, the state invested around €10 million in a modern assembly line, where the FIAT Punto 2 was to be produced under the name of "Zastava 10." By successfully producing around 10,000 Zastava 10 vehicles per year while abiding by FIAT's strict standards, Zastava indicated to FIAT that it could be transformed into a modern car manufacturing plant.

Finally, in September 2008, the FIAT Group and the Serbian Government signed a contract forming a new joint venture company, FIAT Serbia. The FIAT Group invested €700 million in FIAT Serbia, while the Republic of Serbia contributed the Zastava Automobili plant along with an additional investment of €200 million. The ownership structure of the company gives the FIAT Group a 67% stake and the Republic of Serbia a 33% stake. The FIAT Serbia company will produce FIAT A and B segment passenger cars, and will reach production capacity of 200,000 vehicles a year by the end of 2012.

The FIAT manufacturing model requires the complete transformation of Zastava Automobili's production process. While Zastava had a number of in-house operations, like production of transmission and braking systems, the FIAT model necessitates the involvement of door-to-door class A suppliers for various components and systems. The city of Kragujevac will invest in the road, rail, gas and electricity infrastructure to support this new project. It will also develop a 75 ha industrial zone for class A suppliers to FIAT Serbia. Brands competing to be class A FIAT suppliers are companies like Magneti Marelli, Johnson Controls, Faurecia, Lear Corp, Reiter and others. Local suppliers are also expected to participate in the project, which should also help boost the re-emergence of the automotive industry in Serbia.



“Our operations here will provide the Fiat Group with the means to widen its customer base and to support its expansion and volume aspirations from a strategic region, while, at the same time, contributing to Serbia's industrial and technological development. This initiative will enhance the economic and social growth of the region. For over half a century, Fiat and Zastava have played an important role in developing the Serbian automotive industry. Moreover, our commitment demonstrates our confidence and trust in Serbia, especially in view of the strong determination of its Government and the perspicacity of President Boris Tadic to enable the country to advance on its European Union path.”

Mr. Sergio Marchionne
President
FIAT Group, Italy

FAP

fap.co.rs

Fabrika Automobila Priboj, or FAP, was established in 1952 in the town of Priboj in western Serbia. A year later, FAP introduced its first heavy-duty vehicles upon acquiring a licence to manufacture under the Saurer-Werke brand. In 1970 FAP signed a new licensing agreement with Daimler-Benz and its products have been based on this cooperation ever since.

Further developments continued during the 1980s with the introduction of a new processing plant for pressed parts and components, a production line for wheels with a capacity of 70,000 units per year, and a machining facility for the production of gears, pinions, rings, and universal joint shafts. One section of FAP's manufacturing capacity was adapted for the production of 15,000 vehicles per year.

FAP's core activity today is the production of heavy-duty vehicles with gross weight capacities ranging from 10 to 32 tonnes. These vehicles are powered by various engines that are able to generate from 88 to 279 kW. They are also available with different drive line configurations: 4x2, 4x4, 6x2, 6x6, 8x2, 8x4 and 8x8. There is also ample scope

for combining different vehicle features (vehicle weight, engine power, drive line configurations, etc.), enabling FAP to respond to the expectations of its customers and satisfy their demands.

FAP's basic production programme consists of:

- Open trucks
- Tug trucks
- Dump trucks
- Special vehicles
- Buses
- Trailers and covered-trailers
- Spare parts

FAP offers its vehicles with power systems manufactured by Mercedes-Benz, Cummins, MAN and Famos.

The factory employs 1611 people and covers 78 ha of land. The company is still state-owned and the Republic of Serbia is looking for a strategic partner to buy a controlling stake. Please contact the Serbian Privatisation Agency for more information (www.priv.rs).

NEOBUS

neobus.rs

The oldest bus manufacturer in Serbia, Neobus from Novi Sad was established in 1952. Since then, Neobus has produced over 15,000 buses and special vehicles, using their own chassis or those of renowned manufacturers.

Neobus is an example of a successful privatisation in Serbia. It was privatised in 2004 by a private entity from Saudi Arabia, and this marked the beginning of a new era for the company as it entered a strategic partnership with Volvo and implemented of the ISO 9001 standard.

Today, the company employs over 200 people and has a production capacity of some 600 buses per year.

The production programme consists of:

- Midi buses
- City buses
- Suburban buses
- Tourist buses and
- High tourist buses

Neobus' reputation and its partnership with Volvo are Neobus' buses' highest guarantees of quality. Both partners are investing great effort in producing environmentally friendly vehicles. Neobus also cooperates with other renowned manufacturers such as: Mercedes, Raba, MAN, DAF, Cummins, Allison etc. Neobus buses are exported to countries across the world such as Germany, Denmark, Poland, Hungary, Saudi Arabia, Ghana, Russia, Iraq, Syria, Morocco, Turkey and South Africa.

ZASTAVA KAMIONI

zastava-kamioni.co.rs

The larger of two subsidiaries of the former Zastava Automobili, Zastava Kamioni is located in Kragujevac. This is where the first motor vehicles were produced in Serbia in 1939 with the assembly of Chevrolet trucks. Today, it is the only manufacturer of light and medium commercial vehicles (total weight 2.5 – 12.5 t) in Serbia and the entire South-East Europe (SEE) region.

Zastava Kamioni production capacity is 7,000 vehicles per year and it employs a workforce of 850. Its technology competences range from a press shop, welding, surface protection and painting, machining, heat treatment and assembly. The factory covers a total area of 10.5 ha with 34,500 m² of production halls.

The production range consists of:

- Light commercial vehicle – Rival (2.5 – 6.5 t)
- Medium commercial vehicle – Euro Zeta (6.5 – 12.5 t)
- Off-road Transport Vehicles “ZK”
- Front and rear axles (OEM supply)
- Spare parts

IKARBUS

ikarbus.rs

In 1923 Dimitrije Konjovic, a pilot, naval officer and renowned Serbian industrialist, founded the Ikarus company – Serbia's first airplane, car and engine manufacturer. The company specialised in the manufacture of airplanes until 1954, when its first bus was produced under the Austrian “Sauer” licence. Gradually, the company altered its focus from airplane to bus production. In 1993, the company changed its name from Ikarus to Ikarbus. The company was privatised in 2008 when it was bought by the Russian company Avtodetal.

The company has cooperated with brands such as MAN, Mercedes and DAF. Today, Ikarbus' production range consists of:

- City buses
- Intercity buses
- Tourist buses and
- Medical vehicles

Ikarbus' production capacity exceeds domestic demand. Therefore, its main strategic goals are to export and penetrate the international market. In addition to its own resources, the company relies on cooperation with leading European manufacturers in this field, as well as on strategic partnerships that it is building with other major companies like Tusino Auto and Siemens.

ZASTAVA SPECIAL VEHICLES

zastavasa.co.rs

Formed in 1969 as a Zastava Automobili subsidiary for the production of mini-vans and pick-ups, Zastava Special Vehicles is located in Sombor in northern Serbia. Today, this state-owned company employs 262 people, though it employed 850 at its peak in 1989. That year, Zastava Special Vehicles produced 9,000 cars, while the factory's maximum capacity was 10,000 vehicles.

The factory grounds cover 9.5 ha and the total area of its production halls is 23,890 m². The factory's activities include: production of basic plastic/tin parts and bodies, and separate facilities for varnishing, car assembly and tooling.

The production range consists of:

- Florida pick-up poly
- Skala pick-up poly
- Tanks and seat frames (OEM Supply)

The company is still state-owned and the Republic of Serbia is looking for a strategic partner to buy a controlling stake. Please contact the Serbian Privatisation Agency for more information (www.priv.rs).

ANALYSIS OF COMPONENT SUPPLIERS

The Serbia Investment and Export Promotion Agency puts a special focus on the automotive component industry, since it is one of sectors in Serbia that attracts major interest among foreign investors and buyers. For this reason, in 2006, SIEPA started the practice of surveying this sector in order to compile a

database of companies and follow developments and trends in the industry. The results of the 2006 survey were published in SIEPA's Selected Automotive Suppliers 2006 brochure. These surveys are conducted through direct contact with companies and statistical data derives from reports compiled by the companies themselves. In 2008 new survey was performed that included a larger sample of companies, analysing product groups, turnover, export, workforce, ownership, use of languages and QMS in companies. The analysis puts special emphasis on the entry of foreign capital into this sector. SIEPA has recorded ten Greenfield/Brownfield projects in the automotive components sector since 2004, while a lot of foreign capital has entered Serbia through the privatisation process. The arrival of this capital has given the components industry a major boost.

THE AUTOMOTIVE COMPONENTS PRODUCTION IS ONE OF SERBIA'S CORNERSTONE INDUSTRIAL SECTORS. THE STRENGTH AND CAPACITIES OF COMPANIES IN SERBIA CONTINUOUSLY CONTRIBUTES TO THE OVERALL DEVELOPMENT OF THE INDUSTRY.

Scope of Companies

Although the Serbian Business Register Agency reports 180 companies as being registered for the production of parts and systems for motor vehicles in Serbia, SIEPA's research identified around 70 companies currently capable of serious production for international OEM or the spare parts market. SIEPA considers these 70 companies to make up the automotive components industry in Serbia. One of the main reasons for excluding the rest of the registered companies from the survey is that, although registered for production, they are more involved in the trade, as opposed to production, of automotive parts and systems. These companies' turnovers would give a false impression of parts and systems production in Serbia. By focusing on 70 companies, whose core business is the production of automotive parts and systems, SIEPA's survey gives a realistic overview of the automotive component producers sector in Serbia.

Product Groups

Engine & engine component manufacturing is the most popular activity within the automotive component production industry in Serbia. These products encompass valves, camshafts, crankshafts, connecting rods, flywheels etc. Production of complete engines has dropped with the drop in production of Zastava cars and the industry is now focused on components rather than assembly. However these engine components are mostly produced for foreign OEMs with a smaller percentage destined for the spare parts market, suggesting high product quality.

Vehicle plastic and rubber parts are the second most popular after engine components in automotive component production in Serbia. Rubber components include chiefly hoses, rubber brackets and weather seals, while plastic is used in a wide range of interior and exterior parts. It should be noted that the survey did not include tyres within the plastic and rubber product group, but as part of chassis systems. There is little foreign capital present in plastic & rubber production, making it a favourite product group for domestic companies.

Electrical, electronic & power supply production is also very significant. These products include car batteries, electric motors and wire harnesses. It is worth noting that the majority of wire harness producers are foreign-owned companies founded in the last three years.

Production of braking system parts is very diverse and covers brake discs and drums, brake pads, hydraulic systems for braking systems, hydraulic brake hoses etc. Production of brake discs and drums is most popular, and foreign capital is strongly present there.

These parts are produced by casting and machining, which, together with wire harness production, is technology that has seen the most foreign investment in the Serbian automotive sector in the past three years.

Production of automotive components in Serbia	
Engine & engine components	16.20%
Vehicle plastic & rubber parts	14.80%
Electrical, electronics & power supply	9.40%
Braking systems	9.40%
Body parts	8.10%
Chassis systems	6.70%
Automotive hydraulics & pneumatics	5.40%
Vehicle interior systems & parts	5.40%
Filters & gaskets	5.40%
Heating, ventilation & AC	4%
Drivetrain	2.70%
Other	12.50%

Source: SIEPA 2008 automotive components sector survey

80% INCREASE IN TURNOVER 90% OF COMPANIES EXPORT TO EU

ANALYSIS OF COMPONENT SUPPLIERS

Turnover and Exports

As stated earlier, 10 new companies have entered the automotive component production sector in Serbia since 2005. All of these companies are foreign investors and their establishment has led to rapid growth in sector turnover, especially in 2008. Total turnover rose from €360 million in 2006 to €460 million in 2007, and €830 million in 2008, which is the largest growth that this sector has ever recorded in Serbia (80%).

Domestic companies' turnover is also constantly growing, but not as rapidly as with foreign-owned companies. Very little domestic capital was invested in new companies and the majority of domestic companies' turnover growth is down to the increase in existing production.

Parallel to the turnover, the level of exports is steadily rising. Foreign-owned companies are main leaders in this category, especially since almost all of them have invested in Serbia for exporting purposes. The reason for this lies in the excellent export conditions that Serbia offers, due to its convenient location and free trade agreements with all European countries and Russia. The survey demonstrates that more than 90% of foreign companies' production is exported, while domestic companies export around 45%. Domestic companies clearly focus more on local demand, while foreign-owned companies focus on exports.

FIAT's arrival in Serbia, with production plans for 300,000 vehicles a year, will certainly shift foreign investors' interest from predominantly export production to supplying local vehicle production as well.

With export of €120 million, the biggest exporter in 2008 was Tigar Tyres, owned by French Michelin. Tigar Tyres exports 90% to the European Union.

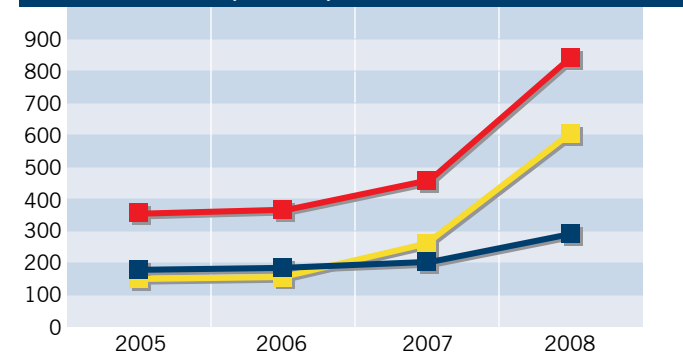
The primary export destination for automotive parts produced in Serbia is the European Union, and the survey shows that 90% of companies export to the EU. The European Union is a very large market for automotive parts, and Serbia has the advantage of geographically bordering three EU countries and having exceptional trade measures, enabling the export of all products originating from Serbia to enter EU without customs or other fees.

The second largest export destination, with 60% of automotive companies exporting there, are the countries of former Yugoslavia. The export to these countries is predominantly based on the spare parts market. The strong presence of Serbian parts in these markets is due to the fact that many vehicles driven there originate from Serbian vehicle manufacturers. Although many producers export to these countries, the real volume of export is not that large.

Under the free trade agreement, automotive parts and systems can be exported from Serbia to Russia duty free, although Russia comes only fourth as an export destination, with 31% of companies exporting there. There are several examples indicating that companies are taking advantage of the export condition opportunities with Russia, such as French Lohr. This company started producing truck trailers in Serbia in 2007 and will export €50 million worth of goods to Russia in 2008.

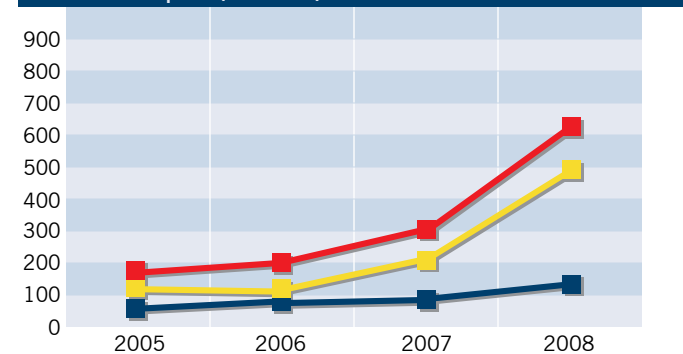
Some companies in Serbia export to the Middle-East, African countries and the USA, but the survey shows that there is virtually no export from Serbia to the Far-East, Australia or South America. The reason for this lies in the geographical remoteness of these countries.

Total sector turnover (mill. EUR)



Source: SIEPA 2008 automotive components sector survey

Total sector exports (mill. EUR)



Source: SIEPA 2008 automotive components sector survey

ANALYSIS OF COMPONENT SUPPLIERS

Workforce Features

The establishment of ten new companies within the three year period has had a major impact on both the total number of workers and total turnover in the sector. This impact was not immediate, since the normal time for investment project development is approximately three years. However, in 2008, the impact of these investments became apparent.

The survey shows that in 2008, the sector employed around 25,000 workers - down from the 28,000 workers reported in 2005. However, this figure constitutes an increase from 2007, and this is the first year since the 80s that the number of workers in the sector has risen.

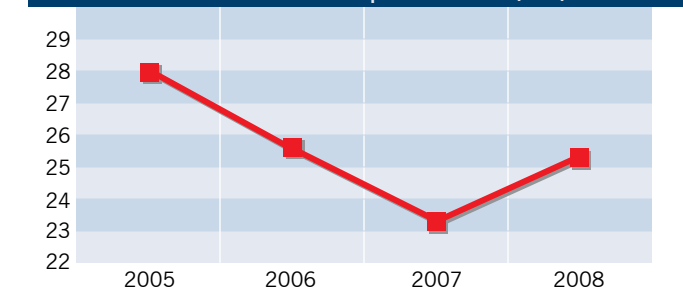
The fall in the total workforce up to 2007 was down to the privatisation process. While the privatisation process did not end in this sector in 2008, the steady influx of Greenfield investment

and the consolidation of privatised companies led to new jobs outnumbering redundancies.

The number of workers in both domestic and foreign-owned companies was on the decline until 2006. At that time, foreign capital had been entering Serbia almost exclusively through privatisations. After 2006, privatised companies consolidated and the influx of Greenfield investment led to a rise in employment.

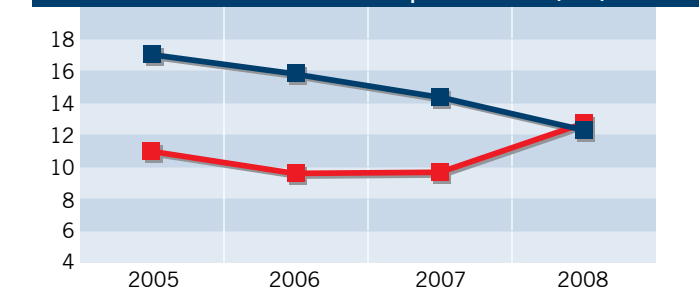
Nevertheless, domestic companies are still reducing their workforce. What little domestic capital there is in Greenfield projects remains with small companies that have little bearing on the sector workforce. Large employers among domestic companies are companies that have either been recently privatised, or are still in the privatisation process. These companies will continue to reduce their workforce until the point of consolidation.

Total Workforce in Automotive Components Sector (000)



Source: SIEPA 2008 automotive components sector survey

Number of Workers in Automotive Components Sector (000)



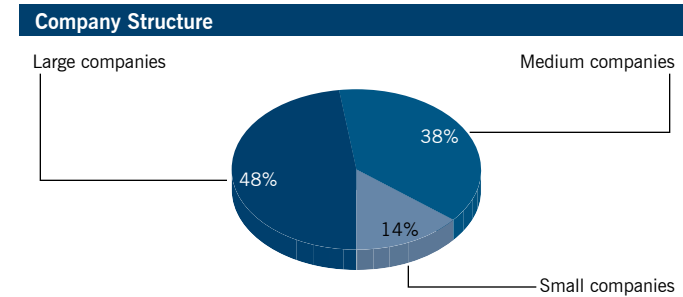
Source: SIEPA 2008 automotive components sector survey

Company Size Info

The survey shows that 48% of companies in the sector are large companies. Medium-sized companies form 38% of the sector and small companies only 14%.

Foreign Greenfield investments play a big part in medium-sized companies, suggesting that this is the preferred scheme when Greenfield FDI is at stake. Large companies are those that tend to have been around for longer and have been privatised or are in the process of privatisation.

With 2,470 workers, the biggest employer among Serbian automotive suppliers is Traylor, the tyre manufacturer from Krusevac, owned by Bulgarian Brikel.



Source: SIEPA 2008 automotive components sector survey

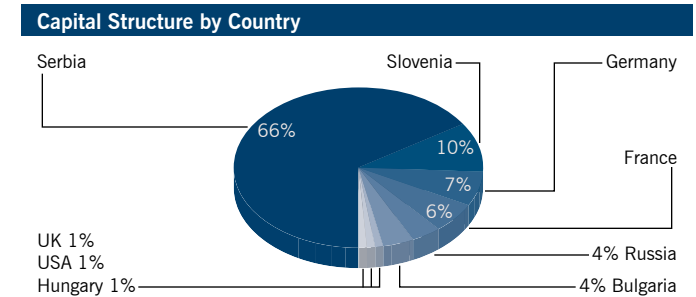
Capital Structure

The majority of companies in the sector are domestically owned, with an ownership ratio of 66% for the domestically-owned companies and 34% for the foreign ones.

Slovenian companies are the biggest foreign investors in the Serbian automotive components sector, with a 10% presence on the market. German companies are next with a 7% ownership, followed by French companies with a 6%.

The reason for such a high percentage of Slovenian capital is unquestionably in their excellent knowledge of this sector in Serbia, dating back to the days of the former Yugoslavia. The same reasons account for the German and French capital, since a lot of Serbian companies were suppliers to German and French OEMs in the past.

Interestingly, the survey showed no Italian capital presence in the Serbian automotive components sector. FIAT's arrival in the vehicle manufacturer sector is expected to lead to a strong influx of investments from Italian component suppliers.



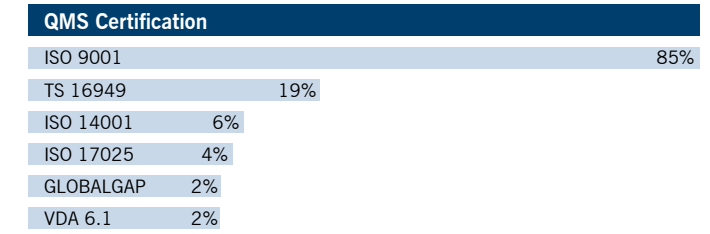
Source: SIEPA 2008 automotive components sector survey

Quality Management Systems Languages Options

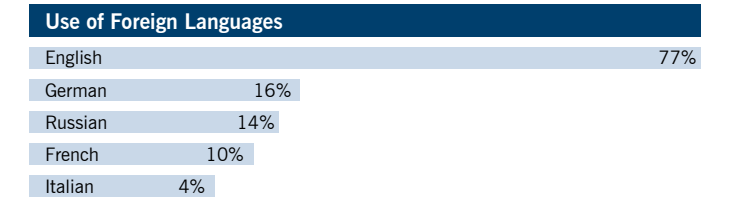
The survey shows that in 2008, the sector's quality management was mostly performed according to ISO 9000 or equivalent systems, with 85% of companies adhering to ISO 9000 or equivalent certificates. The second most frequently implemented QMS was ISO TS 16949, with only 20% of companies in the sector being ISO TS 16949 certified. Given the importance of this QMS in the automotive industry, the level of its implementation cannot be considered satisfactory.

The low level of ISO TS 16949 implementation indicates that most companies are focused on the spare parts market or are tier 2 or 3 suppliers. However, four of the new Greenfield companies have been established in 2007, and the implementation of TS 16949 typically takes over a year.

Foreign languages used by component producers in Serbia are English, German, Russian, French and Italian. While this is an indication of export destinations, these are the most commonly used languages in the automotive industry today. English dominates other languages, with 77% of companies using it as a means of communication with their foreign partners.



Source: SIEPA 2008 automotive components sector survey



Source: SIEPA 2008 automotive components sector survey



“Serbia has an abundance of highly qualified workers and its proximity to Europe opens endless possibilities for entrepreneurs and companies looking for high quality products and large profit margins. The local workforce employed in the automotive industry is one of the best in the region with the highest experience in this field, making it an irreplaceable part of the company’s success. The supportive legal framework and the financial incentives offered by the Government through its specialised agencies can indeed provide the necessary help during the first few years on the market.”

Mr. Nenad Medenica
Streit Jucit Plant Manager
Streit Groupe

“In Serbia, our commitment is strong and our presence is twofold – we have co-founded TIGAR MH in Pirot with Tigar AD and IFC (a member of the World Bank). Serbia is important to us because it represents a strong market and because it is a country in which we have found an excellent and reliable partner, with which we have been doing business for many years, and that shares our values, objectives and business policies.”

Mr. Manuel Weiller
Business Development Manager
Michelin

“When we looked at various countries in Eastern Europe, we made the decision based on where we could get the qualified skills that pertained to the kind of business that we wanted to get into, which was primarily the design of manufacturing systems. We needed people that had that experience and the kind of education to carry this forward and we found that the best response was from Belgrade. They had the most qualified people out of all the places we looked.”

Mr. Laurence J. Albon
Chairman and Managing Director
Albon Engineering and Manufacturing

“In our development strategy, we have set the highest priority for the Cimos Corporation to grow into a global manufacturer and service provider, investing everywhere we believe has sufficient development potential for materials or other production resources, and know-how in metal processing and the automotive industry in particular. We found such an environment in Serbia, in Kikinda – this plant has been part of the global automotive industry for several decades.”

Mr. Dario Sik
Export Manager
Cimos

INVESTMENT INCENTIVES

Automotive industry investment projects in Serbia enjoy a wide array of both financial and tax incentives. Apart from an attractive package of tax relief forms, state grants for manufacturing, accompanied with diverse expert services and R&D projects are also available.

FINANCIAL
INCENTIVES &
GRANTS
CONSTANTLY
AVAILABLE

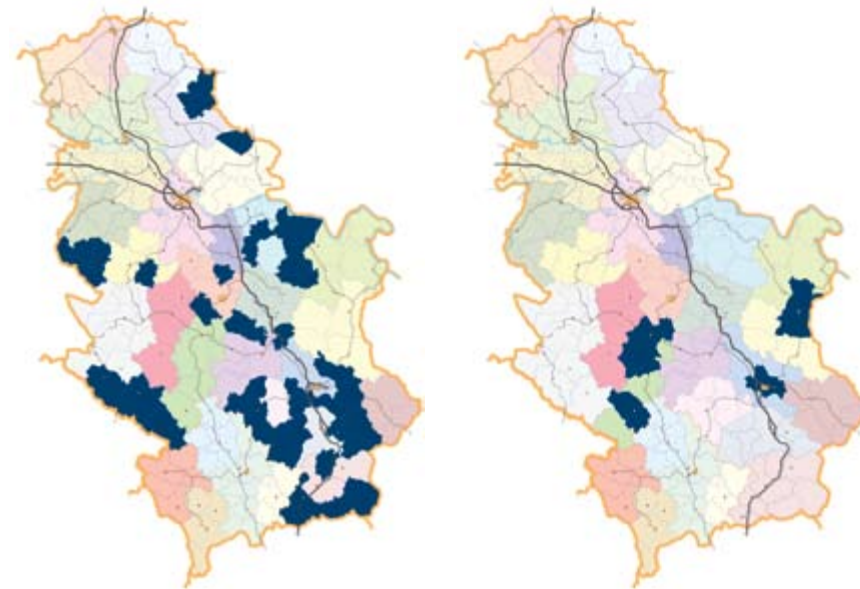


Financial Incentives

Special Financial Incentives for Large-Scale Projects For large scale, capital and labor intensive projects a special financial package is available. If a project's value exceeds €200 million, with the minimum of 1,000 new jobs created, the state may cover 25% value of the investment. For capital intensive projects that exceed €50 million and create minimum 300 new jobs, grants of 20% project value are available.

One example of such large-scale project support is the FIAT investment in Kragujevac. The Serbian Government supported this project with a direct investment incentive of €200 million.

Standard Financial Incentives For smaller-scale Greenfield and Brownfield projects in the manufacturing and services sectors, non-refundable state funds are offered in the range between €2,000 and €10,000 per new job created. This incentive scheme has already worked for automotive industry component makers, like the German Leoni and Korean Yura Corporation



Devastated Regions

Regions of Special Interest

Financial Incentives for Automotive Industry					
Eligible Sectors	Large-scale Projects		Standard-scale Projects		
	Capital and Labor Intensive Projects	Capital Intensive Projects	Investment in Devastated Regions	Investment in Regions of Special State Interest	Investment in Other Regions
Grant Amount	25% of the total investment	20% of the total investment	€ 4,000 - 10,000 / per job created	€ 5,000 - 10,000 / per job created	€ 4,000 - 5,000 / per job created
Minimum Investment Amount	€ 200 mn	€ 50 mn	€ 0.5 mn	€ 0.5 mn	€ 1 mn
Minimum N° of New Jobs	1,000	300	50	50	50

Source: SIEPA

Tax Incentives

Serbia's tax regime is highly conducive to doing business. Corporate profit tax is the second lowest in Europe, while VAT, income tax, and social insurance contributions are among the most competitive ones in Central and Eastern Europe. Total tax burden can be further reduced by taking advantage of a broad range of tax incentives.

Tax Holiday Companies are exempt from corporate profit tax for a period of 10 years, starting from the first year in which they report taxable profit if:

- They invest in fixed assets an amount exceeding RSD 600 million (approximately €7 million), and
- They hire at least 100 additional full-time employees during the investment period.

Tax Credits The amount of tax payable can be reduced by 20, 40 or 80% of the amount invested in fixed assets for the respective tax period. This reduction cannot exceed 50% of the total tax liability for a single year. If not used entirely in the course of one year, this tax credit can be carried forward for a maximum period of 10 years.

Carrying Forward Losses The tax loss stated in the tax return can be carried forward and offset against future profits over a period of up to 10 years.

Accelerated Depreciation The taxpayer has the right to accelerated fixed asset depreciation at rates of up to 25% above those prescribed. This relief is provided for fixed assets used for ecological purposes, but also for scientific research, education and staff training, and computer hardware.

Salary Tax Exemptions An employer hiring new workers for an indefinite period is exempt from paying due salary contributions over periods of 3 or 2 years. Exemptions for periods of 3 and 2 years depend on the category of workers hired.

Social Insurance Charges Exemptions The employer is exempt from paying national insurance contributions over periods of 3 and 2 years, depending on the category of workers hired.

Customs-Free Imports Foreign investors are exempt from paying customs duties or are allowed to pay the duties at a lower rate for the following products:

Principal Tax Rates	
VAT	Standard rate – 18% Lower rate – 8%
Corporate Profit Tax	Flat rate – 10%
Withholding Tax	20% (for dividends, shares in profits, royalties, interest income, capital gains, lease payments for real estate and other assets)
Personal Income Tax	Salaries – 12% Other income – 20%
Annual Income Tax	10/15% (for annual income below or above 8 average annual salaries)
Social Insurance Contributions	Pension and disability insurance – 11% Health insurance – 6.15% Unemployment insurance – 0.75%
Property Tax	Progressive rates ranging from 0.4% to 3%, plus a fixed amount

Source: SIEPA

Equipment	Duty-free import of new or used equipment and freight motor vehicles, up to the value equivalent to the share of a foreign investor in a company in Serbia.
	Import of new equipment at the rate of 1%, provided: 1) it is not produced in Serbia, 2) it is used in industry, mining, agriculture, fishing, forestry, water management, and construction, and 3) the value of equipment exceeds €200,000.
Raw Materials	Import of certain raw materials at the rate of 1% or 5%, provided: 1) they serve for production only, and 2) they are not produced in Serbia or are not produced in a sufficient quantity and product range or is of inadequate quality.

FREE ACCESS TO A 1 BILLION PEOPLE MARKET

INVESTMENT INCENTIVES

Free Trade Agreements Features

Under free trade agreements, Serbia offers especially favourable export conditions and foreign investors in the automotive industry can enjoy duty-free export to:

- The Russian Federation,
- Belarus,
- Kazakhstan,
- The European Union,
- EFTA countries,
- CEFTA countries and
- Turkey.

The free trade agreement with the Russian Federation makes Serbia particularly attractive to foreign investors and manufacturers since Serbia is the only country outside the Commonwealth of Independent States that enjoys customs-free trade with Russia. Goods produced in Serbia, or whose prevailing value is added in Serbia (at least 50% of ex works price of goods) are considered of Serbian origin and are subject to a 1% customs rate when entering the Russian market. The list of products excludes passenger cars, but automotive parts, trucks and buses can be exported at 1% customs rate.

The free trade agreement between Serbia and Belarus stipulates mutual removal of customs duties and other taxes for numerous products. Goods produced in Serbia, or whose prevailing value is added in Serbia (at least 50% of ex works price of goods) are considered of Serbian origin and, if directly distributed, are subject to a 1% customs rate when entering the Belarusian market. This free trade regime does not apply to the following goods: passenger cars, tractors, buses and tires, however it applies to automotive parts.

The free trade agreement between Serbia and Kazakhstan takes effect with Kazakhstan entering into a Customs Union with the Russian Federation and Belarus. Therefore, the free trade regime which Serbia has signed with Russia and Belarus is expanded to include Kazakhstan.

The Interim Trade Agreement between Serbia and the European Union enables customs-free export of all products originating from Serbia which are completely produced in Serbia or use materials originating from EU countries, Turkey, or countries in the EU accession process, provided that such products have undergone sufficient processing in Serbia.

The free trade agreement between Serbia and EFTA countries (Norway, Liechtenstein, Iceland and Switzerland) is signed and will take effect in 2010. Serbian exporters will be able to export products to these countries without paying customs or other fees. Goods completely produced in Serbia, or which use materials originating from the EFTA countries, EU countries, Turkey, the Faeroe Islands, or countries in Euro-Mediterranean partnership (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia and Palestinian Authority), are considered to be of Serbian origin, provided that such products have only undergone minimal processing in Serbia.

The CEFTA (Central European Free Trade Area) agreement includes the following countries: Albania, Bosnia-Herzegovina, Croatia, FYR Macedonia, Moldova, Montenegro, Serbia and the United Nations Interim Administration Mission in Kosovo. The Agreement stipulates accumulation of products origin, meaning that products exported from Serbia are considered of Serbian origin if integrated materials originate from any other CEFTA country, provided that such products have only undergone minimal processing, i.e. if the value added outside of Serbia is less than the value of the materials used in Serbia.

Serbia and Turkey have signed a bilateral economic free trade agreement which will take effect in 2010. This asymmetric trade liberalization model that favors Serbia allows exporters from Serbia to sell their products customs-free to the sizeable Turkish market. Goods completely produced in Serbia, or which use materials originating from EU countries, or countries in the EU association process, are considered products of Serbian origin, provided that such products have undergone minimal processing in Serbia. Additionally these products must be distributed directly.

COST-EFFECTIVE AND READILY AVAILABLE WORKFORCE

INVESTMENT INCENTIVES

Workforce Guide

Unemployment and Salaries Workforce reduction through privatisation along with job creation through Greenfield projects resulted in an almost stagnant employment/unemployment rate in Serbia over the past five years.

With the unemployment rate still high, Serbia can support labour-intensive projects with experienced and qualified labour at cost-effective wages. In general, Serbia offers a wide availability of highly qualified staff. The number of engineers and managers is sufficient to meet the growing demand of international companies in the industry.

The annual unemployment rates in Serbia					
Employment	2005	2006	2007	2008	2009
Employed, 000	2,069	2,026	2,002	1,999	1,889
Unemployed, 000	896	916	785	728	730
Unemployment rate (ILO), %	21.8	21.6	18.8	14.4	16.9

Source: Statistical Office of the Republic of Serbia, Ministry of Finance, National Bank of Serbia

Average Total Monthly Labor Costs in 2009 (EUR)	
Romania	445
Serbia	469
Hungary	713
Poland	717
Slovakia	745
Czech Republic	893
Croatia	1.051

Source: Vienna Institute for International Economic Studies

Education Every year, around 13,000 students graduate from universities in Serbia, where one-third comes from technical universities. Highly-educated people, fast learners, receptive to new technologies, IT-literate, and well-versed in foreign languages, constitute Serbia's true capital.

Eleven institutions in Serbia produce new engineers required in various branches of the automotive industry.

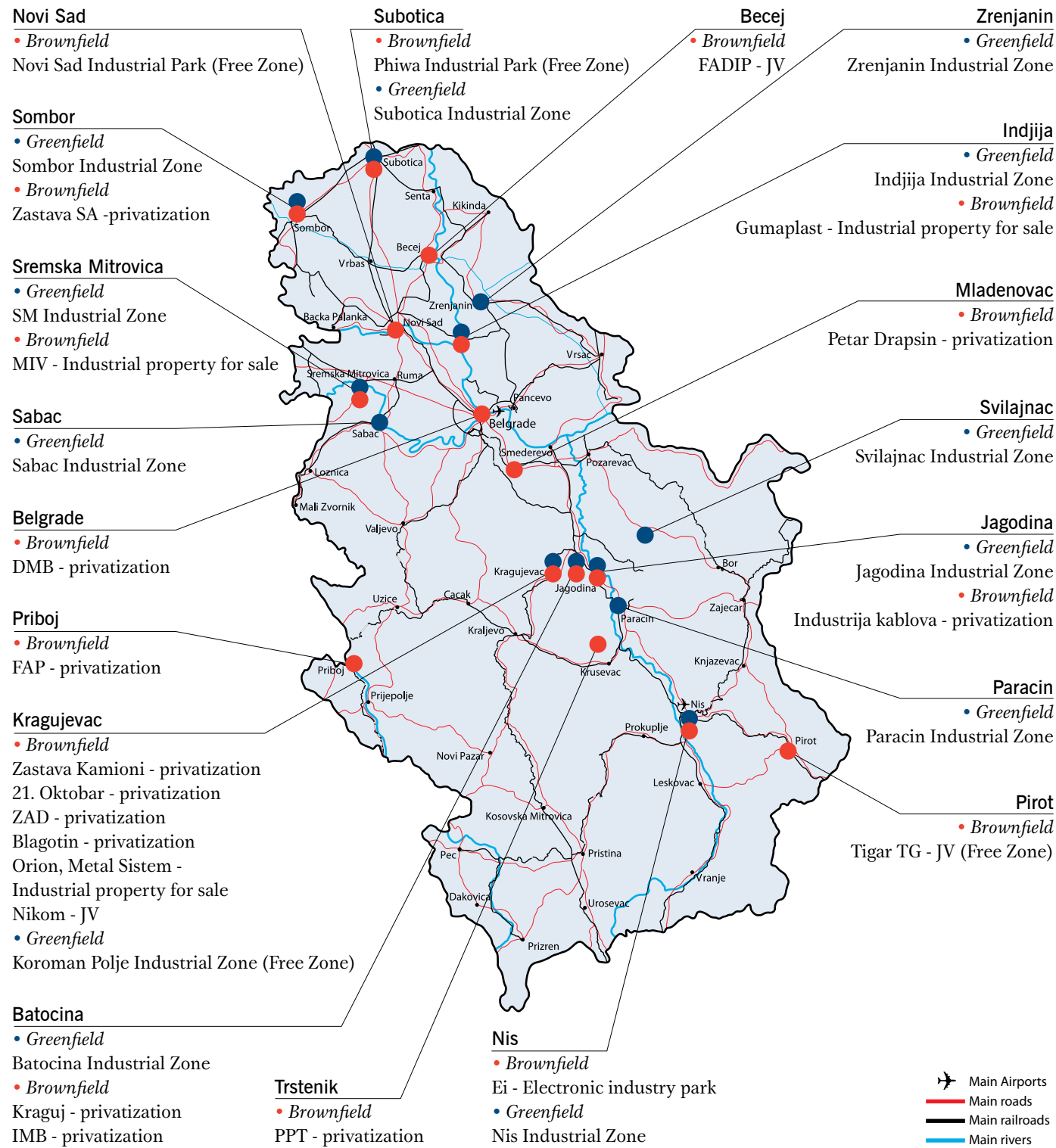
Blue collar workers come from various technical secondary schools. In total there are 71 of such schools in Serbia, offering a number of specializations. These workers also receive specific know-how and hands-on experience related to advanced technology and rigorous quality standards in the automotive industry.

Faculties of Mechanical Engineering	4
Faculties of Technical Sciences	3
Faculties of Electrical and Electronic Engineering	2
Faculty of Traffic and Transport Engineering	1
Faculty of Technology and Metallurgy	1

General technical schools	47
Electro-technical schools	10
Mechanical technical schools	9
Railway technical schools	2
Traffic technical schools	2
Aviation technical schools	1

Greenfield and Brownfield Locations One of SIEPA's primary activities is finding suitable investment locations in Serbia. By maintaining an investment location database and working closely with investors, SIEPA can advise on opportunities in Serbia best suited to a particular project.

In the automotive industry, SIEPA has already worked with companies such as Delphi, Faurecia, Leoni, Reum and many others. Based on these experiences, we formed a database of recommended investment locations for the automotive industry in Serbia in 2009.



SERBIA INVESTMENT AND EXPORT PROMOTION AGENCY

WE SHARE OUR KNOWLEDGE AND EXPERTISE. AT YOUR SERVICE.

SIEPA – YOUR INVESTMENT FACILITATOR

The Serbia Investment and Export Promotion Agency (SIEPA) is a government organization dedicated to effectively helping foreign investors and buyers, while raising Serbia's profile in the minds of international business decision-makers.

SIEPA puts a special focus on the automotive industry reflecting the importance of its development to the Serbian economy by providing the following:

- Promotion of automotive car component suppliers on renowned international fairs and conferences;
- Offering the database of Serbian automotive manufacturers and component suppliers;
- Conducting regular surveys of the sector and producing detailed analysis;
- Supplying the database of automotive investment locations in Serbia;
- Directly working with investors in finding the right location and assisting in the legal processes and project implementation;
- Networking with automotive related associations and organizations in Serbia, including the Automotive Cluster.

Please join us at our national stands at Automechanika Frankfurt and Equip Auto Paris, where selected companies from this industry are exhibiting and offering the viewing of their quality products.

We are proud to offer our reference list that includes some of the biggest multinational companies, namely FIAT, General Motors, Volkswagen, Suzuki, Delphi, Faurecia, Leoni, and many more.

Thus, we would like to invite you to contact our specialized staff ready to assist you and your business interests. Working with us is simple, effective and free of charge.



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