

AUTOMOTIVE INDUSTRY IN SERBIA

Serbia welcomes all investors in Automotive Industry.

Serbian government is dedicated to promotion of Serbia as an attractive investment destination for worldwide companies, as well as to creating business-friendly environment for foreign investors. Serbia guarantees equal opportunities for business as for domestic as for foreign investors. National strategy promotes specific economic sectors as automotive industry, information and communications technologies (ICT) and electronics. Main aim of our industrial policy is to attract FDI in “high value” areas such as new technologies, automotive industry, renewable energy, logistic centers, customer centers, and chemicals.

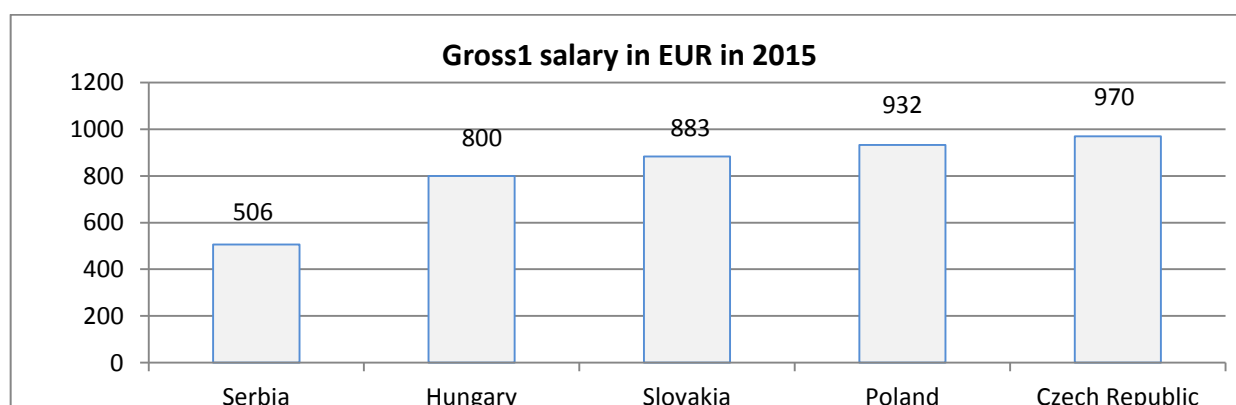
Serbia – basic info

- Serbia is a landlocked state situated in the Southeast Europe, at the crossroads of the Pan-European Corridors (VII - the River Danube and X - the international highway and railroad, intersect on the Serbian territory, providing excellent connections with the Western Europe and the Middle East).



- Parliamentary Republic
 - Population: 7.1mn
 - Territory: 88,499 km²
 - Capital city: Belgrade (1.7mn)
 - Currency: RSD (EUR/RSD average 123.29, September 2016)
- One of the main advantages is political stability.

- The main political goal of Serbia is to become a full member of the European Union. Currently, Serbia has a candidate status and, so far, Serbia has opened six Chapters out of 35 and closed one.
- Serbia has an open market economy and in comparison with the rest of Western Balkans countries has the largest market in terms of population and territory.
- According to the World Bank statistics, Serbia is an upper middle income country, total nominal GDP amounts to EUR 33.5 bn, while GDP pc is EUR 4,720.
- Serbia has signed several agreements that can simplify your business and provide you with some benefits regarding export and import, so one can accomplish some reductions or even total exemption from paying custom duties (SSP, CEFTA, EFTA and agreements with Turkey Russia, Belarus and Kazakhstan).
- Serbia is the only country beyond the Commonwealth of Independent States that has a Free Trade Agreement with the Russian Federation.
- Alongside with these agreements, Serbia also benefits from Generalized System of Preferences of USA and Japan for some goods from Serbia.
- Therefore, companies from Serbia have preferential status when placing their goods and services to the market of more than 1.24 bn people.
- On the WB Doing Business List, Serbia has moved up by 7 places in 2017 and now is ranked as 47th country.
- Serbia has highly skilled and easily trained workforce. Serbia is ranked as the best in the region and the 17th of 72 countries in the world with high proficiency in English language (“Education First” list).
- Serbia has competitive labor policy, as taxes and contributions are competitive and therefore for average net salary which is 364 EUR, total cost (gross2) for the employer is 597 EUR, while average Gross1 salary in 2015 is 506 EUR.



- Serbia also has favorable tax rates. Corporate Tax and VAT are among the lowest in the Central and Eastern Europe 15% and 20% respectively.

Corporate Tax

Serbia	15%
Romania	16%

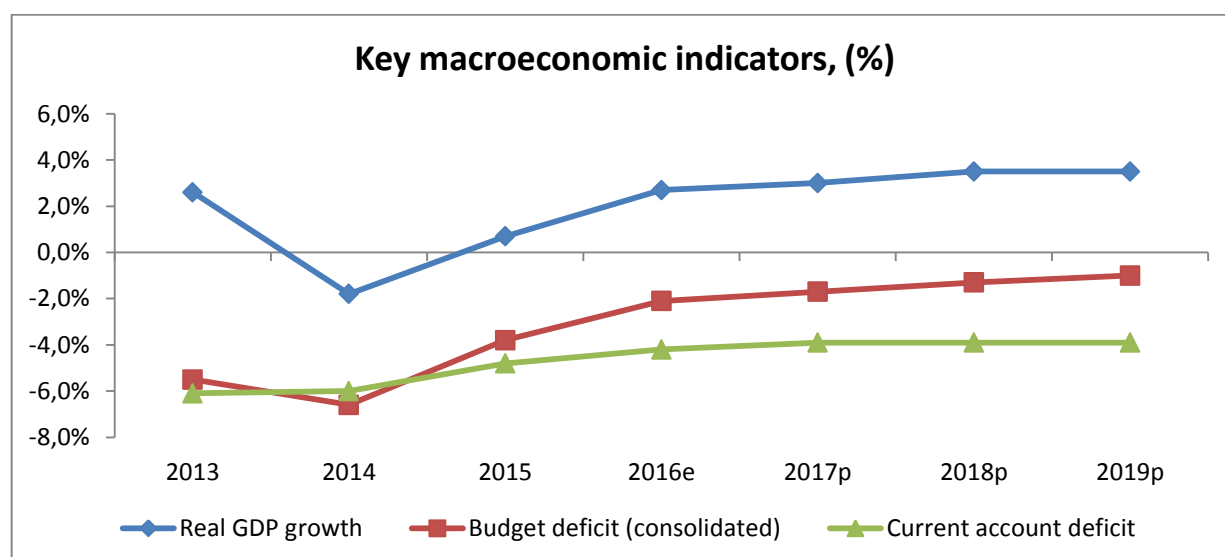
VAT

Serbia	20%
Slovakia	20%

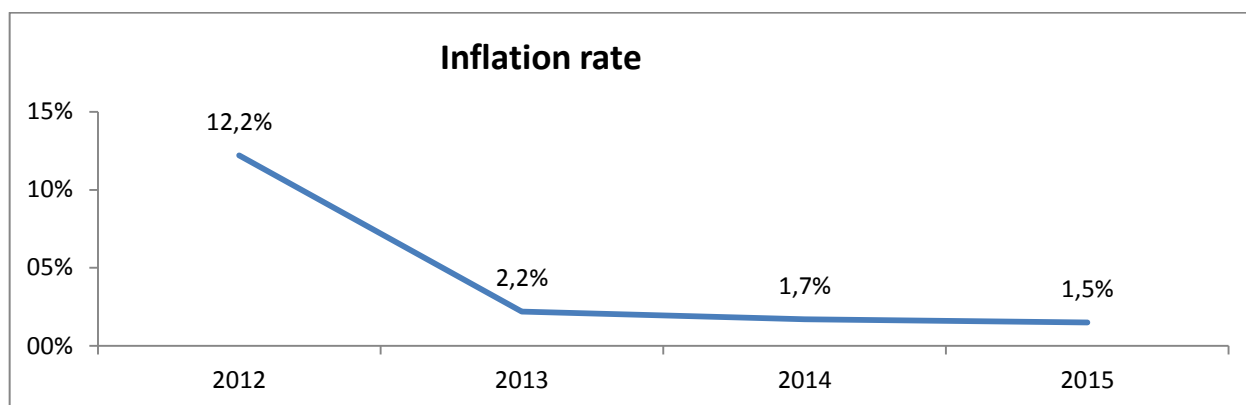
Czech Republic	19%	Romania	20%
Poland	19%	Czech Republic	21%
Hungary	19%	Poland	23%
Croatia	20%	Croatia	25%
Slovakia	22%	Hungary	27%

Serbia – macroeconomic framework

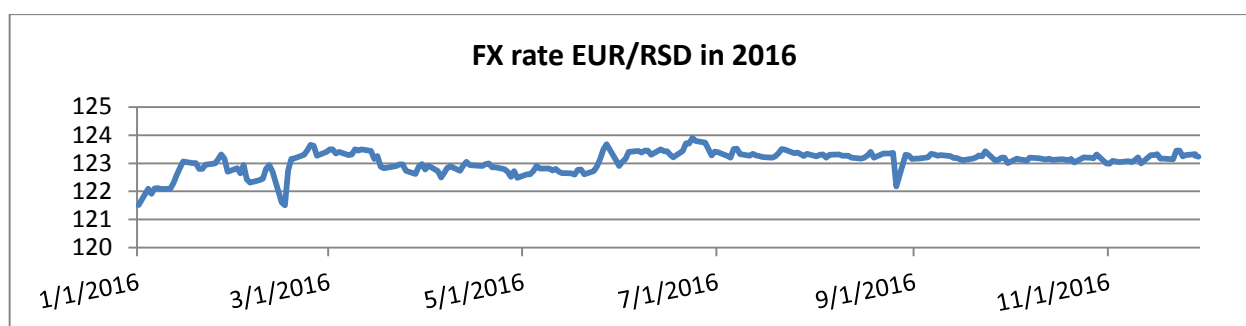
- In 2015, the Republic of Serbia recorded 0.8% growth, while the estimated growth for 2016 has been revised up to 2.7%.
- The Government has implemented the economic reforms in order to achieve fiscal consolidation. In 2015, the reforms gave positive results and Serbia's budget reduced deficit (consolidated fiscal balance) to the record level since 2008 (estimated -2.1% in 2016).
- Current account deficit is also decreasing since 2013.



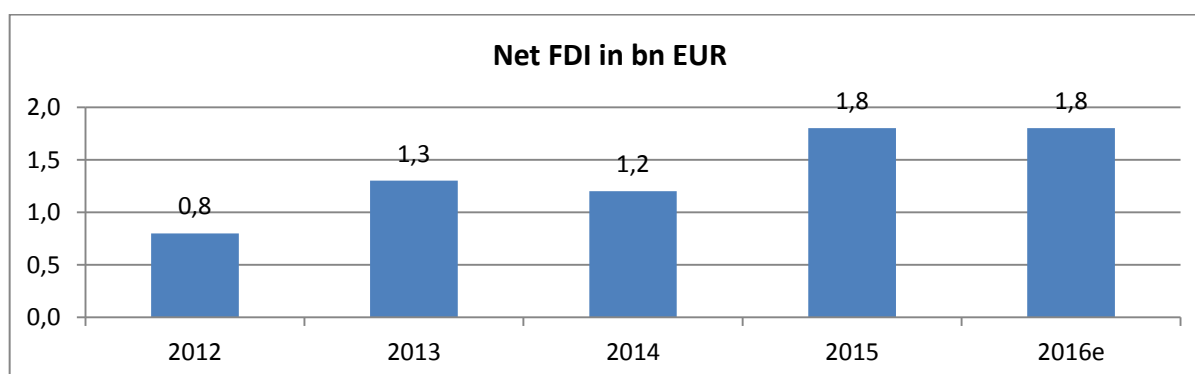
- Serbia has concluded a precautionary agreement with the International Monetary Fund in order to increase credibility of undertaken reforms.
- In their latest reports credit rating agencies confirmed its credit rating (S&P BB-/stable; Fitch B+/positive; Moody's B1/positive) and improved their expectation on Serbia's outlook with further perspectives to improve.
- Inflation has been moving below the target tolerance band of $4\% \pm 1.5\%$. Central Bank of Serbia announced to narrow the target rate interval for the next year on $3\% \pm 1.5\%$.



- Serbia has relatively stable FX rate.



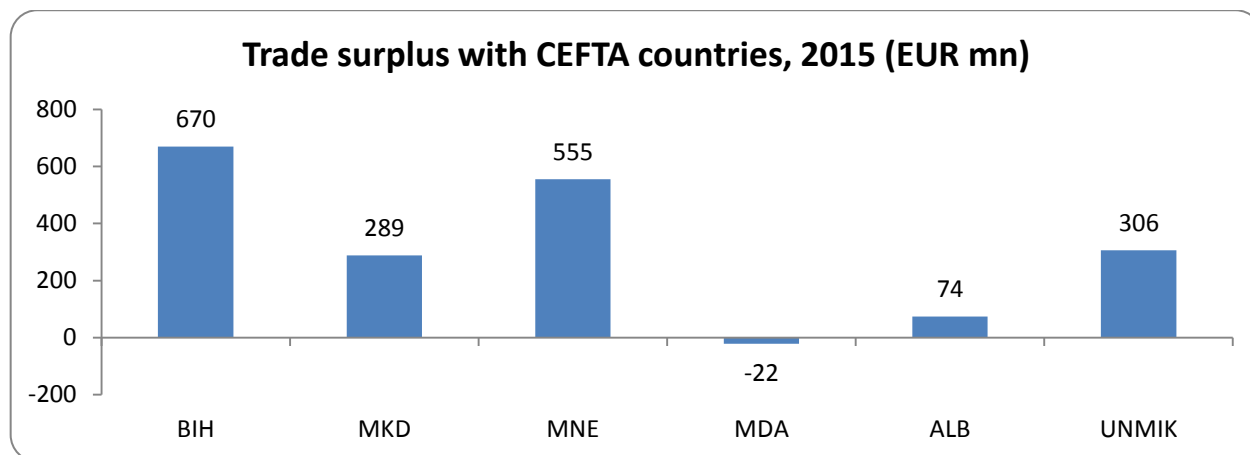
- Since 2000 Serbia has attracted over EUR 28.1 bn of inward foreign direct investment.
- Net FDI in 2015 reached the level of more than EUR 1.8 bn and fully covered the current account deficit. Estimated level of NFDIs in 2016 is EUR 1.8 bn. In 2015, net FDIs were mainly from the Netherlands (20.1%), Austria (19.5%), Luxembourg (9.4%), Italy (8.0%) and the United Arab Emirates (6.7%).



- Many world-renowned global companies recognized Serbia's potential and decided to locate operations in Serbia. Some of them are FCA, Gasprom, Bosch, Michelin, Siemens, Microsoft, Ball Packaging, Panasonic, NCR, Stada...

Serbia and the Western Balkans

- Based on the remarkable economic potential and political stability, Serbia shows better economic performances than other countries in the Western Balkans Region. In 2015, total surplus in commodity trade with CEFTA countries amounted to EUR 1.9 bn.
- Cooperation with the People`s Republic of China is increasing. Companies from the Western Europe and the United States are mainly interested in energy sector and telecommunications, as well as mining and agriculture. Serbia intends to pave the way to new markets for its goods and services.



Automotive Industry

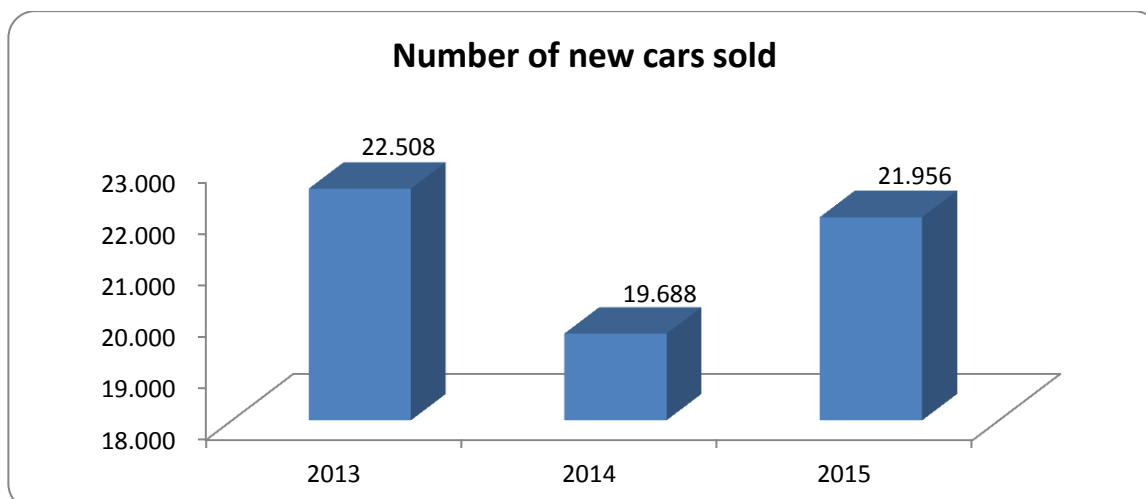
- Automotive industry of Serbia has long tradition, which has been fuelled by re-emerging process of privatization since 2000. Serbian automotive industry dates back from 1939 when Zastava, the Serbian manufacturer of motor vehicles, produced automobiles under the license of Fiat. Zastava's suppliers manufactured under strict, high-quality production standards that enabled them to work with other western car manufacturers such as Mercedes, Ford, PSA and Opel.
- Today, the automotive industry is one of the most prominent sectors in Serbia. Experience and knowledge in automotive industry attracted foreign capital and a significant number of foreign investors in manufacturing and whole supply chain of automotive industry. Around 60 international investors have invested over €1.7 billion in the sector, creating more than 27.000 jobs.
- The leading foreign investors in automotive industry are from Italy (Fiat, Proma-MA, Magneti Marelli, Sigit), France (Michelin, Le Belier), Germany (Robert Bosch, Leoni, Dräxlmaier), the United States (Cooper, Johnson Controls), South Korea (Yura) and other countries. The Serbian automotive industry supplies almost all major European and some Asian car manufacturers.
- The manufacturing of vehicle chassis system parts, especially tires and suspension parts is the most prominent activity in the industry. Electrical system components are another dominant product group with car batteries and wiring installations as the most important products. Also, the production of engine components, mostly casted, is very significant, along with forged and machined parts like camshafts, brake discs, valves and flywheels.
- The largest and the most important investment in the automotive sector is the FIAT project, not only because of the high value of investment, but because it helped in attracting several automobile components producers to Serbia. FCA (Fiat Chrysler Automobile) produces every year over 100,000 vehicles of 500L model, majority of which is exported to US and EU markets.
- From 2005 till now the biggest investments in automotive industry were:



- Automotive Industry has the largest stake in the export of Serbia since 2013

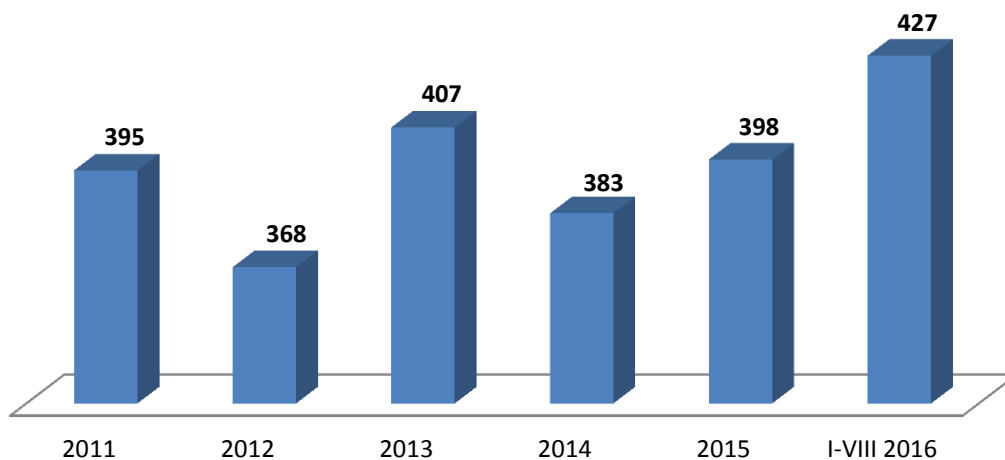
Importers	mln USD	Exporters	mln USD
Fiat Crysler automobili Srbija-Kragujevac	776	Fiat Crysler automobili Srbija-Kragujevac	1,231
Tigar Tyres-Pirot	68	Yura Corporation-Rača	194
Leoni Wiring System Southeast-Prokuplje	62	Leoni Wiring System Southeast-Prokuplje	94
Dad Draxlmaier Automotive-Zrenjanin	55	Dad Draxlmaier Automotive- Zrenjanin	84
Johnsons Controls Automotive Grošnica	44	Contitech Fluid Serbia-Subotica	55
PMC Automotive-Kragujevac	42	IGB Automotive Comp-Indija	53
Yura Corporation-Rača	39	Livnica Kikinda AI-Kikinda	46
Streit Nova-Stara Pazova	33	Eaton Electric-Sremska Mitrovica	40
IGB Automotive Comp-Indija	32	Streit Nova-Stara Pazova	37
Eaton Electric-Sremska Mitrovica	22	Lames-Sremska Mitrovica	26
Lames-Sremska Mitrovica	21	Knott-Autoflex Yug-Bečej	19
Contitech Fluid Serbia-Subotica	15	Tisza Automotive-Senta	18
Livnica Kikinda AI-Kikinda	15	Grah Automotive-Batočina	14
Magneti Marelli-Kragujevac	10		

- For the first seven months in 2016 automotive industry contributed to Serbia export with 15, 9% and made surplus of 113 billion EUR in the balance of trade. The export of automotive industry rose for 7,2% in comparison to the same period in 2015.
- The number of road motor vehicles registered in 2015 was 2.260.308 (81% of that number regards to passenger cars) which is an increase by 2.19% in comparison to the number of registered vehicles in the previous year.
- Regarding trademarks, the following manufacturers were the most notable: Volkswagen, Opel, Zastava, Ford, Fiat, Renault, Mercedes, Peugeot and Skoda.
- The number of first time registered passenger cars in 2015 in the Republic of Serbia increased by 6.9%, relative to the previous year, the number of buses by 53.8%, motor vehicles of special purpose by 278.6%, trucks by 36.2% and the number of trailers by 18.9%, while the number of mopeds and motorcycles noted fall.
- For the first five months of this year 10.459 new cars were sold, which is for 22% more than in the same period last year.

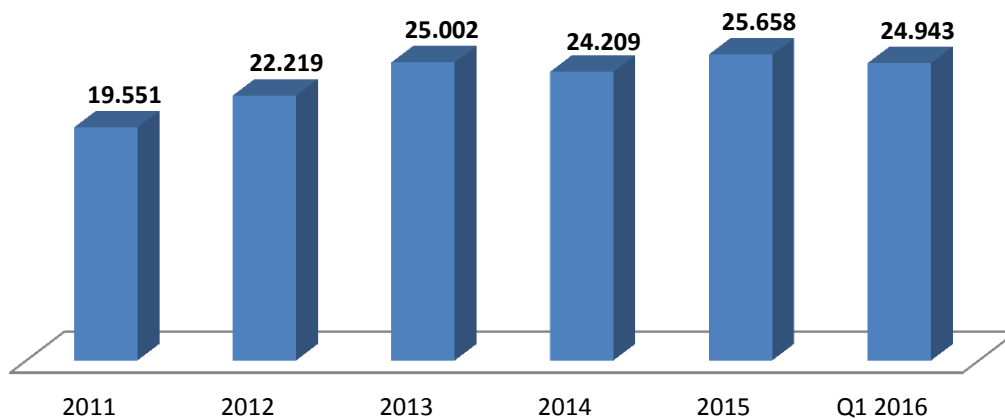


Labor Market

Average salary (Gross 1) in Automotive Industry (EUR)



Number of Employees in Automotive Industry



Free Zones

- There are 14 free zones in Serbia in which operate more than 200 international companies with more than 20.000 people employed.
- In 2015 total value of exchanged goods and services within the zones reached 4.6 bn EUR.
- Companies from Automotive Industry that operate in free zones are:

Free Zone Kragujevac	FIAT Automobiles Serbia – production of automobiles Magneti Marelli Magneti Marelli Automotive Sigit Johnson Controls Automotive JCMM Automotive PMC Automotive
Free Zone Pirot	Tigar Tyres, production of pneumatics Tigar Rubber Footwear, production of rubber footwear Tigar Technical Rubber, rubber products
Free Zone Subotica	Contitech fluid Serbia - components for automotive industry
Free Zone Novi Sad	Belarus-Agropanonka, assembly and storage tractors
Free Zone Zrenjanin	Draexlmaier Automotive, production of parts for automotive industry
Free Zone Šabac	SBE Srbija (Vescovini Group), production of car parts
Free Zone Užice	Impol Seval Aluminium Rolling Mill a.d. Sevojno
Free Zone Smederevo	Metech, production of sheet metal
Free Zone Kruševac	Trayal Corporation, production of rubber and chemical products

Production of automobile filters and available inputs

- Production of Aluminum in Serbia in 2015 reached 65.957 t and net import 249 million USD.
- Processing of Aluminum: net export reached 22 million USD.
- Main producers of cardboard/paper are Umka ad, DS Smith Packaging, Kartonval, Fabrika hartije, Avala Ada i Bosis.

SWOT analyses

Strengths	Opportunities
<ul style="list-style-type: none"> ▪ Economic and political stability ▪ Location and infrastructure ▪ Educated and skilled workforce ▪ Favorable tax rates and investment incentives 	<ul style="list-style-type: none"> ▪ Sufficient capacity for even larger volumes of production ▪ Top technical education at all levels ▪ Low operating costs
Weaknesses	Threats
<ul style="list-style-type: none"> ▪ Legal framework in the process of adjustment with EU ▪ Relatively small number of certified companies for standard ISO TS 16949 	<ul style="list-style-type: none"> ▪ Economic crisis in the EU as the main trading partner