

The background of the entire page is a light-colored wood grain texture, showing vertical lines and natural wood knots.

2018 SERBIA FOREST BASED INDUSTRY



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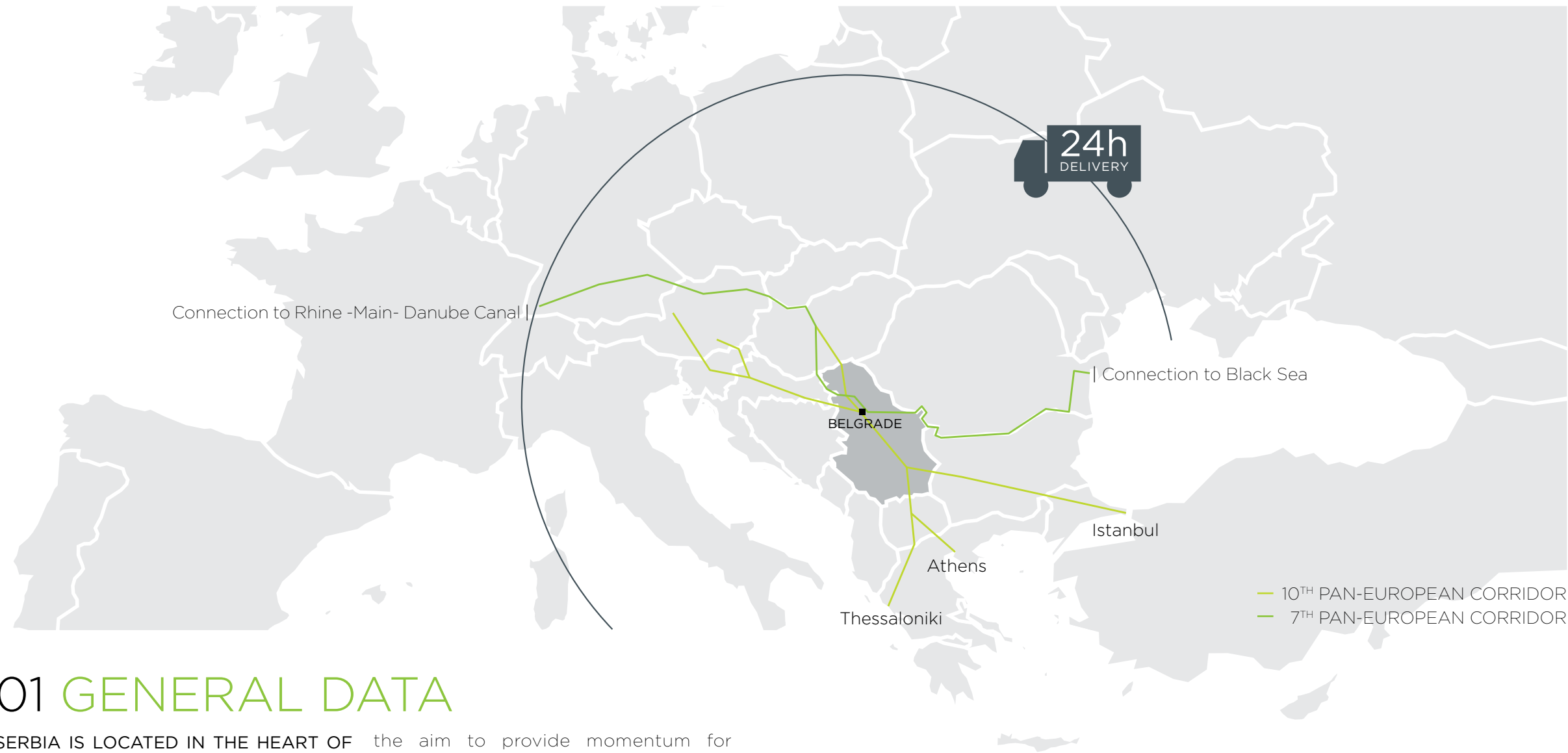
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GENERAL DATA



01 GENERAL DATA

SERBIA IS LOCATED IN THE HEART OF THE BALKAN PENINSULA - EUROPE'S GATEWAY TO ASIA. STRONG RAILWAY AND HIGHWAY INFRASTRUCTURE PLUS GEOGRAPHICAL LOCATION GIVES SERBIA A STRATEGIC POSITION IN THE REGION OF SOUTH-EAST EUROPE.

Over the past several years, strong foreign investment and the continued improvement of its business environment has led to Serbia's economic growth. Major steps to enhance the business climate and reduce the state's footprint in the economy have been taken with

the aim to provide momentum for investments, economic diversification, and sustainable private sector growth in order to create jobs. Serbia has set an ambitious plan for its top priorities - EU accession, fiscal and budget consolidation and legislative reforms. Its significant legislative reforms include aligning Serbia's Labor, Bankruptcy and Privatization laws with the EU regulations. The most recent changes include amendments to its Planning and Construction Law, Law on Investments, as well as improvements to the pension system and reforms in public enterprises.

| | |
|---|---------------------------|
| 7.06 MILLION | POPULATION (excl. Kosovo) |
| 35,485* MIL € | GDP (2016) |
| 5,061 € | GDP (2016) per capita |
| * preliminary data Statistical Office of the Republic of Serbia | |

SERBIA'S TREASURED POSITION IN THE HEART OF SEE MAKES IT AN OUTSTANDING INVESTMENT LOCATION. BUSINESS BASED IN SERBIA ARE ABLE TO PROVIDE SERVICES AND TRANSPORT GOODS IN PROJECTED AND FLEXIBLE TIME FRAMES.

02 FOREST BASE INDUSTRY AT A GLANCE

SERBIA HAS THE POTENTIAL TO BECOME A PREFERRED COUNTRY FOR FOREIGN INVESTMENTS IN THE WOOD AND FURNITURE SECTOR.

IN THE PERIOD JANUARY-MARCH 2018 EXPORT OF FURNITURE AND PRODUCTS OF WOOD, CORK, STRAW AND PAPER AMOUNTED TO €271.1 MLN, WITH A SHARE OF 7.1% IN THE TOTAL EXPORT OF THE REPUBLIC SERBIA.



36,606 WORKERS
13,687 in furniture industry and
22,919 in timber industry



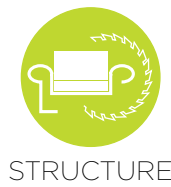
€1,045.5 MILLION
(2017)



3,445 COMPANIES
More than 90% of enterprises are privately owned and mainly
located in the central and southern areas of Serbia.



40.0%
furniture export



24.4% producing furniture
75.6% producing timber



1.4%
Sector's share in Serbia's Gross Domestic Product (2016)

Source: The Serbian Business Registers Agency

Source: Chamber of Commerce and Industry of Serbia, 2018

IN ORDER TO DEVELOP BUSINESS SERBIAN COMPANIES HAVE ESTABLISHED ASSOCIATIONS THAT ARE REPRESENTING INTERESTS OF THE FOREST BASED INDUSTRY. WOOD AGENCY WWW.AGENCIJAZADRVO.RS AND WOODWORKER CLUSTER WWW.KLASTERDP.RS ARE THE STRONGEST TRADE ASSOCIATION IN ALL SECTORS INCLUDING SAWN WOOD, UPHOLSTERY, CABINET, BATHROOM, KITCHEN, OFFICE, MATTRESS & BEDS.

EXPORT STRUCTURE

29% upholstery
24% solid wood furniture
12% living and dining furniture

EXPORT DESTINATION

EU 51%
Russian Federation and Belarus 21%
Region 26%

OVER THE PAST DECADE, SERBIA'S WOOD HAS BEEN ONE OF THE MOST ATTRACTIVE SECTORS FOR FOREIGN INVESTORS. COMPANIES SUCH AS FRENCH TARKETT, ITALIAN DITRE AND GRUPPO FANTONI, AUSTRIAN KRONOSPAN HAVE BUILT FACTORIES IN SERBIA TO SUPPLY NOT ONLY THE LOCAL MARKET, BUT ALSO THE EU AND THE EVER GROWING RUSSIAN MARKET. THEY JOIN FIAT, BOSCH, MICROSOFT AND OTHERS THAT HAVE CHOSEN SERBIA AS THEIR EAST EUROPEAN MANUFACTURING BASE.



ITS EXCELLENT STRATEGIC POSITION MADE SERBIA NO.1 INVESTMENT LOCATION WHERE WE PLACED OUR FIRST REGIONAL PRODUCTION CENTER.

Mr. Aleksandar Andersen Podravac,
Director, HealthCare Europe



03 WHY INVEST?



FOREST OWNERSHIP

FOREST - BASED INDUSTRIES IN SERBIA HAVE ALWAYS PLAYED AN IMPORTANT ROLE IN THE COUNTRY'S ECONOMIC DEVELOPMENT. THE REGULATION OF THESE INDUSTRIES IS DIVIDED BETWEEN TWO MINISTRIES: MINISTRY OF AGRICULTURE AND ENVIRONMENTAL PROTECTION AND THE MINISTRY OF ECONOMY.

MINISTRY OF AGRICULTURE AND ENVIRONMENTAL PROTECTION

As one of the prime natural resources of Serbia, forests are managed by the Directorate of Forests within the Ministry of Agriculture. Their responsibilities include approval of annual forest cutting plans for public enterprises.

www.eko.minpolj.gov.rs

MINISTRY OF ECONOMY

Activities related to timber and wood processing, as well as involving economic development, are managed by the Ministry of Economy.

Forests in Serbia are both - state and privately owned. In order to control illegal logging, all activities conducted in privately and state owned forests are done under the supervision of two Public Enterprises: Srbijašume and Vojvodinašume. Out of the total area of 2,252,400 ha of forests in Serbia, 53% ha are state owned and 47% ha are privately held. Privately owned forests are fragmented and small in size. Bigger holdings with more substantial potential for development are rare, but produce high quality hardwood timber used in solid wood furniture manufacturing.

www.privreda.gov.rs

EXCELLENT RAW MATERIAL BASE

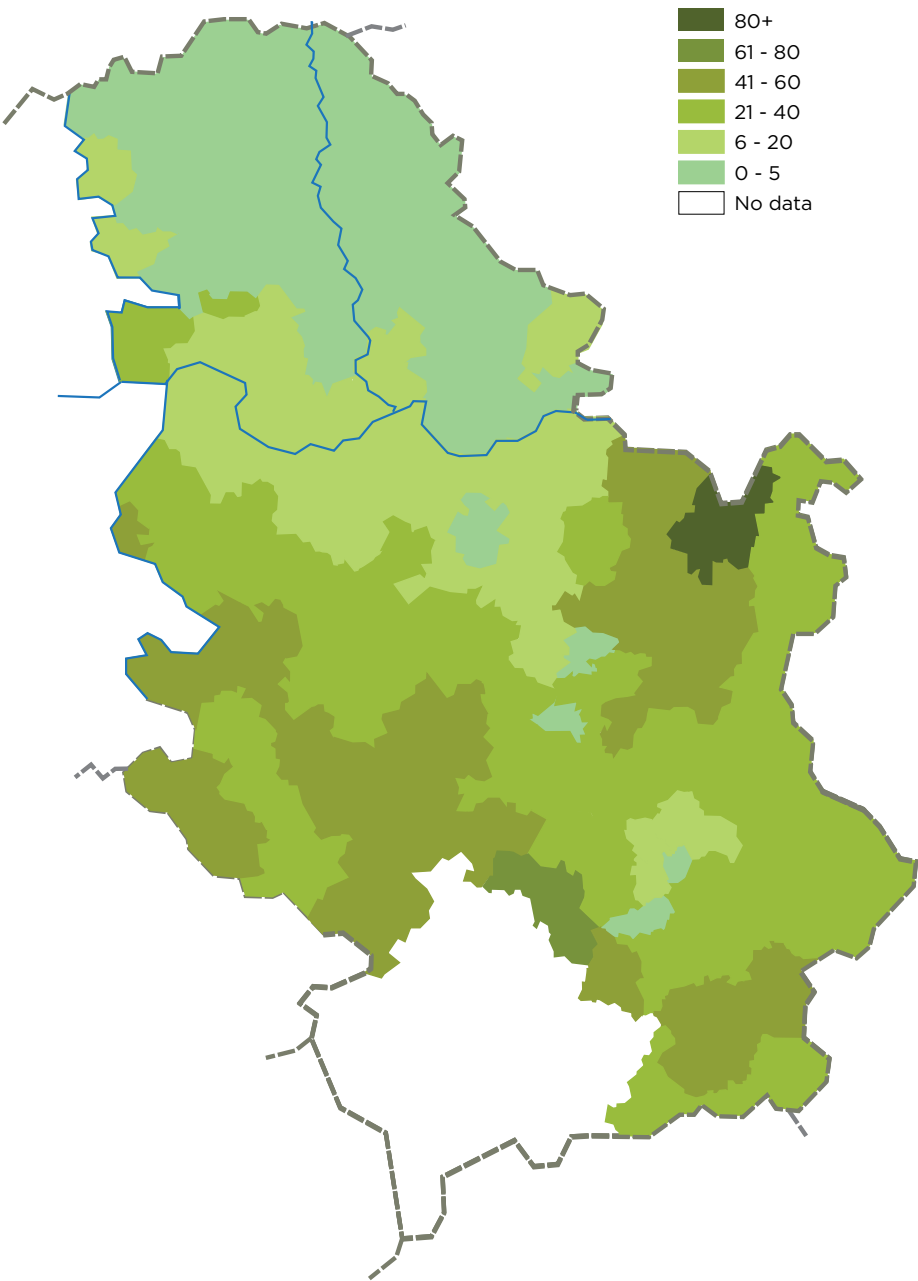
WOOD SUPPLY

Serbia's logging is managed by public enterprises **Srbijašume** and **Vojvodinašume**. These enterprises determine the quantity of wood required from domestic sources and make allocations to companies/ individuals engaged in logging. Allocations are revised and adjusted depending on market requirements, availability and accessibility of timber. At the end of each year, companies may conclude an annual contract with Srbijašume and Vojvodinašume to ensure the supply for the coming year.

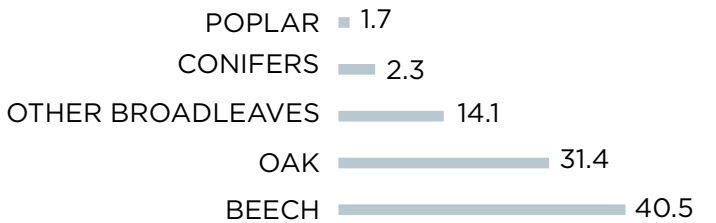
The annual volume of timber felled in 2016 for commercial purpose in Serbia was more than 3.1 million m³, 76% were produced in state-owned forests by the state enterprises, while the largest part of this wood volume (50%), is used as firewood.

Conifers represent a relatively small share of the total amount supplied and cut while hardwood is the most available wood with annual supply of 2.7 million m³.

% UNDER FORESTS:

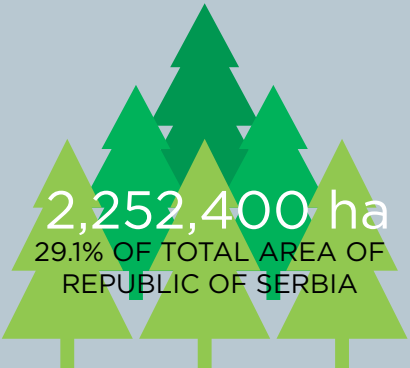


FOREST SPECIES (%)



HARDWOOD 87.7%

CONIFERS 12.3%



BY SIGNING A YEARLY CONTRACT
WITH SRBIJAŠUME AND
VOJVODINAŠUME COMPANIES
ENSURE THE SUPPLY FOR NEXT
YEAR.



BESIDES NATURAL GROWTH,
SERBIA PAYS GREAT ATTENTION
TO REFORESTATION.



STATE OWNED FOREST HAS BEEN
CERTIFIED BY FSC STANDARD.

AVAILABILITY OF HIGH QUALITY WORKFORCE

SERBIAN COMPANIES HAVE LONG-STANDING TRADITION OF SUPPLING FOREIGN BUYERS AND THE SKILL-SET FOR THE WOOD PROCESSING INDUSTRY IS CONSTANTLY IMPROVING.

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HIGH SCHOOLS
THAT ARE SPECIALIZED
IN WOOD PROCESSING



4 FACULTIES
WITH PROGRAMS CONNECTED TO THE
FURNITURE INDUSTRY WITH

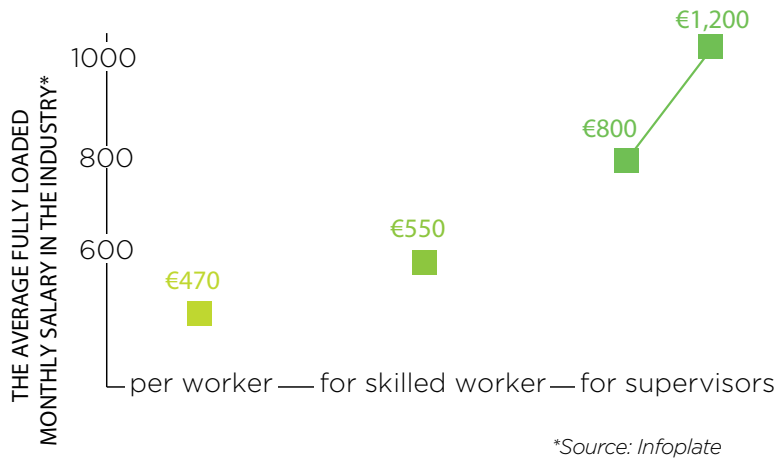
1,040
GRADUATES PER YEAR



8,730
UNEMPLOYED IN THE
FOREST BASED INDUSTRY



Sector growth is fueled by Serbia's highly skilled workforce and constantly modernizing plants, equipment and business operations to accommodate emerging technologies and management approaches.



13.5%
UNEMPLOYMENT RATE*

*Source: Statistical Office of the Republic of Serbia, 2017

| LEVEL OF EDUCATION | % OF OF UNEMPLOYED |
|--------------------|--------------------|
| ELEMENTARY SCHOOL | 14.3 |
| HIGH SCHOOL | 63.0 |
| UNIVERSITY/COLLEGE | 22.7 |

Source: National Employment Service, Republic of Serbia, 2017

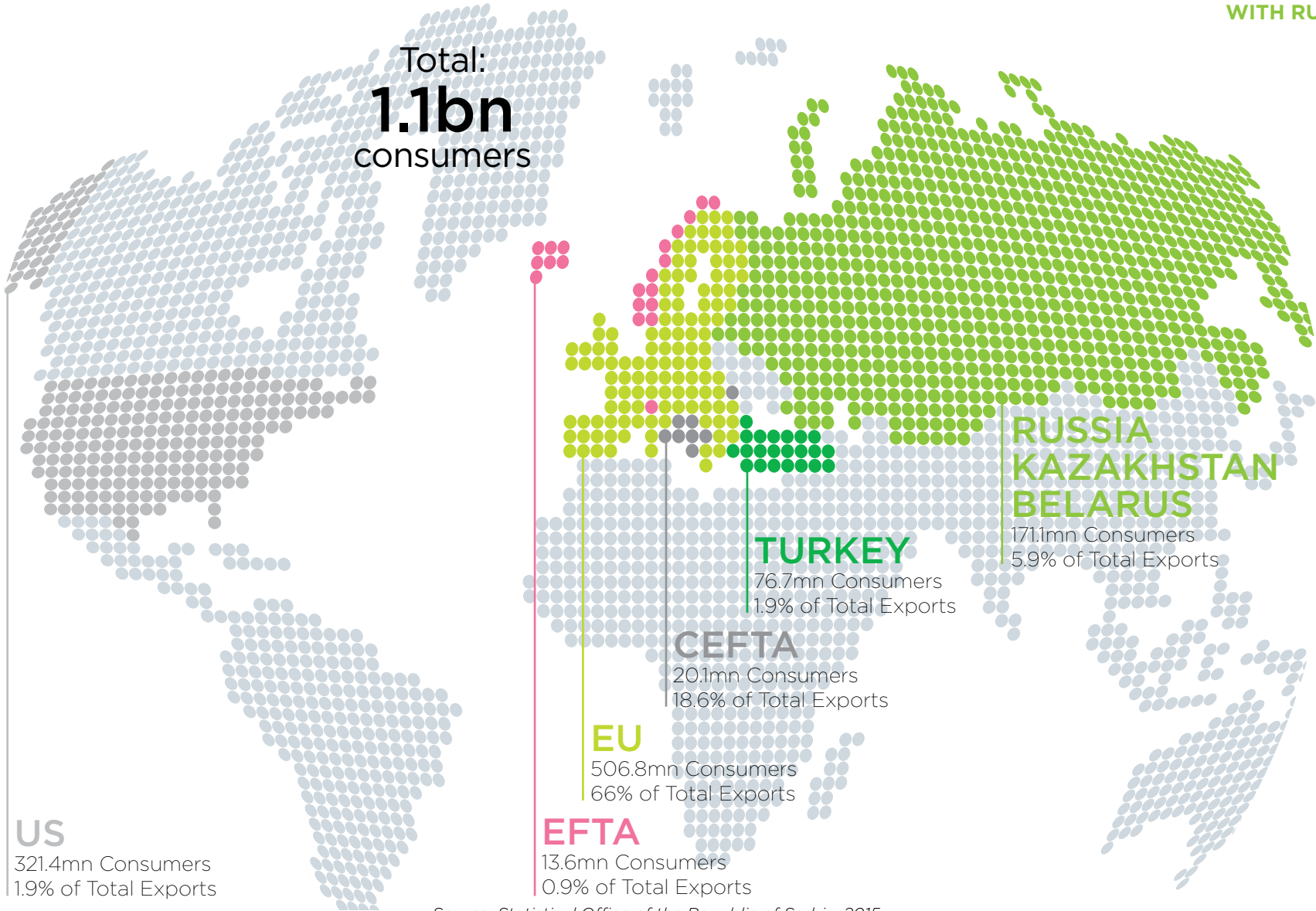
TRADE UNLIMITED

FREE TRADE NETWORK

Due to a number of free trade agreements, Serbia can serve as a manufacturing hub for duty-free exports to a market of more than 1 billion people that includes the European

Union, the United States of America, the Russian Federation, Kazakhstan, Turkey, South East Europe, the European Free Trade Agreement members and Belarus.

SERBIA IS THE ONLY COUNTRY OUTSIDE OF THE COMMONWEALTH OF INDEPENDENT STATES THAT HAS A FREE TRADE AGREEMENT WITH RUSSIA.



Source: Statistical Office of the Republic of Serbia, 2015

FREE TRADE ZONE AND INWARD PROCESSING

Exporters operating in Serbia's Free Trade Zones avoid import duties and VAT on materials from EU or elsewhere. In order to stimulate export-oriented manufacturing, the Republic of Serbia provides customs - and VAT - free import of materials through the Inward Processing procedure. As an additional incentive for companies to streamline export-oriented operations, many municipalities offer the possibility of operating within designated industrial zones. The Free Trade Zone is considered to be outside the customs system and all goods bound to factories inside them are customs - and VAT - free when finished products are exported.



COMPETITIVE OPERATING COSTS

ACCORDING TO EUROSTAT, SERBIA HAS THE LOWEST COSTS OF ELECTRICITY, GAS, OTHER FUELS AND LANDLINE TELEPHONY AMONG 37 EUROPEAN STATES.



OLD BUILD NEW BUILD
1-2.5€/m² 3-5€/M2



AVERAGE BUILDING COST
200-400€/m²



0.067 €/kWh

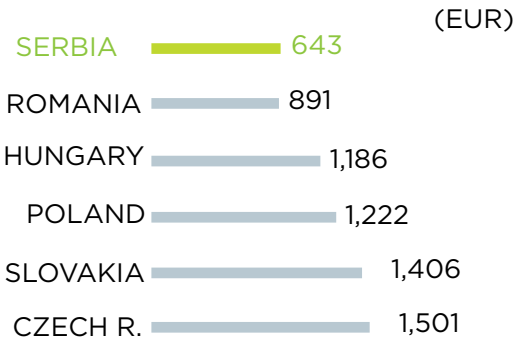


0.6-1.3 €/m³

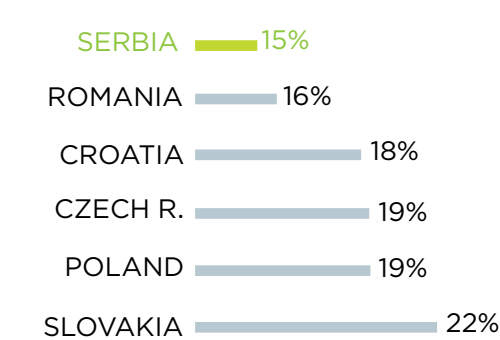


0.38-0.42 €/m³

AVERAGE GROSS MONTHLY SALARY



CORPORATE PROFIT TAX



Source: The Vienna Institute for International Economic Studies, 2018

FINANCIAL INCENTIVES AND BENEFITS

FAVORABLE TAX SYSTEM

Serbia's favorable corporate tax system makes investing here highly attractive. In addition to one of the lowest corporate profit tax rates in Europe, investors benefit from various tax incentives which create excellent start up conditions.

CORPORATE INCOME TAX INCENTIVES

A 10 year Corporate Income Tax Holiday is available for investors who hire more than 100 employees and invest more than 8.3 million euros (1 billion RSD). Tax holiday begins once the company starts making a profit.

PAYROLL TAX INCENTIVES

Employment of people who were registered with the National Unemployment Agency for more than 6 months entitles employers to a sizable relief of taxes paid on net salary from the moment of employment until December 31, 2018:

- 1-9 new jobs: 65% reduction
- 10-99 new jobs: 70% reduction
- 100+ new jobs: 75% reduction

(payroll tax incentives can't be combined with Financial Incentives)

FINANCIAL INCENTIVES

Highly competitive and diverse investment incentives are designed to reduce the costs of investment projects in Serbia. The Serbian Government offers financial support for Greenfield and Brownfield projects in the manufacturing and service sectors which involve international trade. The level of investment incentive is based on:

- investment location
- N^o of workers
- amount of investment
- 2 years Gross Salary

For a detailed overview of tax incentives and financial support program please see:

www.ras.gov.rs

PRIVATIZATION PROCESS

Serbia recently made significant changes to its Privatization Law, simplifying the process and making it highly attractive to potential investors. A distinctive business opportunity in the privatization process is the state-owned company SIMPO (www.simpogroup.com). It is one of the largest furniture manufacturers in the region, with its own logistics and a retail network of more than 60 dedicated stores and showrooms in 5 countries. Simpo's production process is completely integrated, from raw materials to the final product, making SIMPO unique on the European market. This concept allows them to have full control over the quality, cost, and just-in-time delivery, with extremely competitive prices on the domestic and international markets. The company's experience serving IKEA, XXXLutz, But, Roche Bobois and numerous other high profile retailers speaks to the ability of the labor force and the quality of the products.

04 STRUCTURE OF FOREST



SAWMILLS

Sawmill tradition in Serbia dates back to the beginning of the 19th century. Even today, **Serbia is the 2nd largest producer of sawn beech wood and the 3rd largest producer of sawn hardwood in the Balkans.** Sawn wood, besides furniture, is the most significant forest product of the wood-processing industry in Serbia. Sawmills make 3% of the total number of wood processing companies. At the same time, sawn wood accounts for 37.2% of exports in this sector. Most sawmills are small, located in rural areas and operate only during the warm season. Large sawmills, with annual capacities of 3,000 – 5,000 m³, hold 55% of the installed capacity for sawn wood production. The existing raw material base drives sawmill production and most sawmills produce sawn hardwood. Annual production of sawn hardwood in Serbia exceeds 300,000 m³, and 70% of this is sawn beech wood.



PARTICLE BOARDS

Particle board is the wood product with the highest demand in Serbia. This demand is generated by the market-driven growth in high-quality furniture production. Serbian producers make more than 200,000,000 m³ in particle board. Although Austrian company Kronospan invested in a particle-board factory in Lapovo in 2009 and Italian company Fantoni has privatized Serbian company SPIK Ivanjica, the demand for particle boards is still very high. An increase in domestic production was not enough to satisfy the market needs which resulted with import of 170,000 m³ in 2015, presenting 54% particle board consumption of local market.

BASED INDUSTRY



HARDBOARD

In terms of volume, hardboard is the main fiberboard product in Serbia. The production of hardboard has fluctuated significantly in the past. After a drastic decline of 61% in 1999, production began to increase in 2000 and has been on the rise since. Although hardboard is produced solely at SIMPO-ŠIK in Southern Serbia, with the capacity of over 40,000 m³ annually, 28,000m³ was produced in 2015 and was mainly exported to Greece and Turkey. Even though raw hardboard dominates the domestic construction and furniture industry, the import is still necessary. In 2015, 26,000m³ were imported from Hungary and Germany.



PLYWOOD AND VENEER

Over the past 15 years, veneer and plywood production have been slowly declining for two reasons. Firstly, veneer was produced by state-owned companies, which are now being privatized. Secondly, “veneer quality” logs have generally been exported, rather than processed locally and then exported as a higher-value product. Currently, peeled veneer makes about 90% of total veneer production with Poplar veneer being the leading product, while remainder is mainly Beech. Other significant veneers currently produced in Serbia are Oak, Ash and Walnut. Poplar and Beech are primarily used in the manufacturing of plywood boards, which are mainly utilized in furniture and packaging production. Even so, plywood production in 2015 was 16,000m³ and export 8,000m³ plywood demands on domestic market are present with import in amount of 13,000m³.

WOOD PRODUCTS IN THE CONSTRUCTION INDUSTRY



SOLID WOOD BOARDS

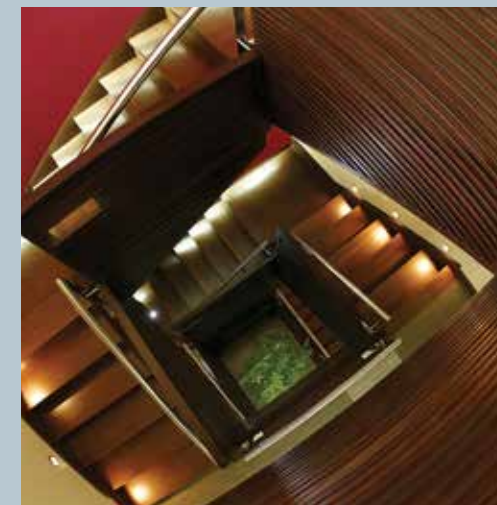
There has been a significant increase in the production of solid laminated wood board. Produced mainly from Beech, these products are ranked with A/B quality. Edge-glued panels for stairs, tables and furniture parts are predominantly produced. The expansion of small, privately owned companies, especially in Central Serbia, has generated a substantial increase in the export of solid wood boards. Main export markets are Germany and Italy.



JOINERY

Production of solid wood joinery has a long tradition in Serbia. A large number of companies produce high quality windows and doors and significant quantities have been directly exported. Door production is dominated by solid Oak and Beech. However, Spruce and Fir are also commonly used. Domestic companies use high-quality metal accessories for joinery along with ecological coatings and can comply with any other consumer request.

Joinery production is closely linked to the Construction industry.



WOOD PELLETS

This renewable energy source is efficient, clean and reliable. The Serbian pellet market has been developing since 2006, but intensive production of pellets began in 2008. In Serbia, pellets are produced from hardwood, predominantly from Beech with a small portion of Spruce. Today, a major part of production is sold on domestic market, while 27% of production was exported, mainly in Italy, Greece and Germany.

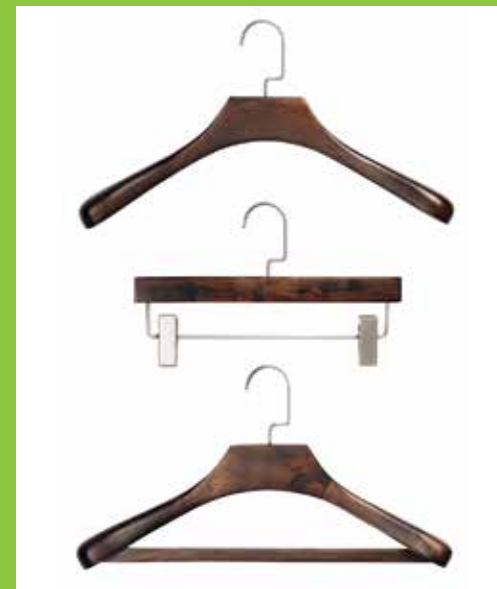


FURNITURE

Serbia's furniture market is a demanding, versatile market which generates many possibilities for furniture producers. All categories of furniture and furnishings are produced in Serbia, such as household kitchens, office, shop fixtures, hotels, restaurants, nurseries, and schools. A number of Serbian companies also manufacture interior cabinetry and custom furniture. Although most of the production is carried out by large and medium companies, micro and small enterprises have an important part in the furniture industry, when it comes to the development of small quantities and designed furniture.

These family-owned companies have been successfully exporting products to the EU market for years, and are often

aligned with construction companies to provide furniture and furnishings for buildings throughout Serbia, Russia, Middle East and other markets. Furniture is generally produced from laminated particle board. The demand for high-quality solid wood furniture is ever present locally, as well as on foreign markets. Only 30% of all furniture in Serbia is produced from solid wood and a great potential for investment lies in this relatively unexplored sector, particularly considering the segment's demand growth internationally. High quality raw materials and modern design, married with low operational and labor costs as well as Serbia's strategic location close to the main EU and Russian markets, provide a solid base for investment in this sector.



ACCESSORIES

The significance of natural materials has raised consumer's consciousness and created demand for various woodcraft products. For the past few years, the export of wooden hangers, cutting boards, crates and other solid wood items has been on constant increase. The main export markets, besides Italy and Germany, are Finland, the Netherlands and Switzerland.



PAPER

Today, there are around 800 producers of paper and paper products in Serbia. Of the overall volume produced, cardboard, paper and cardboard containers are the most dominant products. The annual production of paper and paper products is about 506,000 tons. Serbia continues to import significant amounts of paper and wood pulp, while domestic production is mostly concentrated on paper-processing industry. Over the past years, pulp and paper-based industry continue to register growth in production and exports.

FURNITURE FAIR

WWW.BELGRADEFURNITUREFAIR.COM

EXTRA FORM

Comfort you will love / Udobnost koju ćete voleti

Daisy
Sofa / Garnitura za sedenje

Magic
Sofa / Garnitura za sedenje

Bella
Sofa / Garnitura za sedenje

BELGRADE'S ANNUAL INTERNATIONAL FURNITURE FAIR IS THE LARGEST AND MOST IMPORTANT EVENT IN SOUTHEAST EUROPE WITH MANUFACTURERS FROM THE ENTIRE REGION. EXHIBITORS ARE SUPPLIERS OF LUMBER AND OTHER PRIMARY MATERIALS, COMPONENTS AND FURNITURE PRODUCERS OF EVERY STYLE, MATERIAL AND PRICE POINT. WITH THE INTENTION OF ENCOURAGING VARIOUS BUSINESS ACTIVITIES, THE BELGRADE FURNITURE FAIR HAS ESTABLISHED ONLINE PLATFORM FOR COOPERATION BETWEEN FURNITURE MANUFACTURERS AND INTERNATIONAL BUYERS.

SINCE THE ESTABLISHMENT OF THIS FAIR, SERBIA HAS GROWN INTO ONE OF THE PREMIER INVESTMENT LOCATIONS IN CENTRAL AND EASTERN EUROPE. AS A RESULT, THE INVESTMENT CONFERENCE HAS BEEN ORGANIZED AROUND THE FURNITURE FAIR TO PROMOTE INVESTMENT POSSIBILITIES AND BUSINESS ENVIRONMENT IN THE FOREST BASED INDUSTRY.



RAS

Development Agency of Serbia (RAS) offers a wide range of services on behalf of the Government of the Republic of Serbia, including support of direct investments and export promotion, and leads the implementation of projects with the aim of improving Serbia's competitiveness and reputation in order to support the economic and regional development.

As a newly established agency, RAS builds upon the knowledge of the former Serbia Investment and Export Promotion Agency (SIEPA) and National Agency for Regional Development (NARD) and brings improvements required to meet the needs of a modern economy.

RAS will serve as a one-stop-shop for both domestic and international companies with a single goal of building a strong and sustainable economy, and increasing the quality of life for the people in Serbia.

Development Agency of Serbia (RAS)

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