

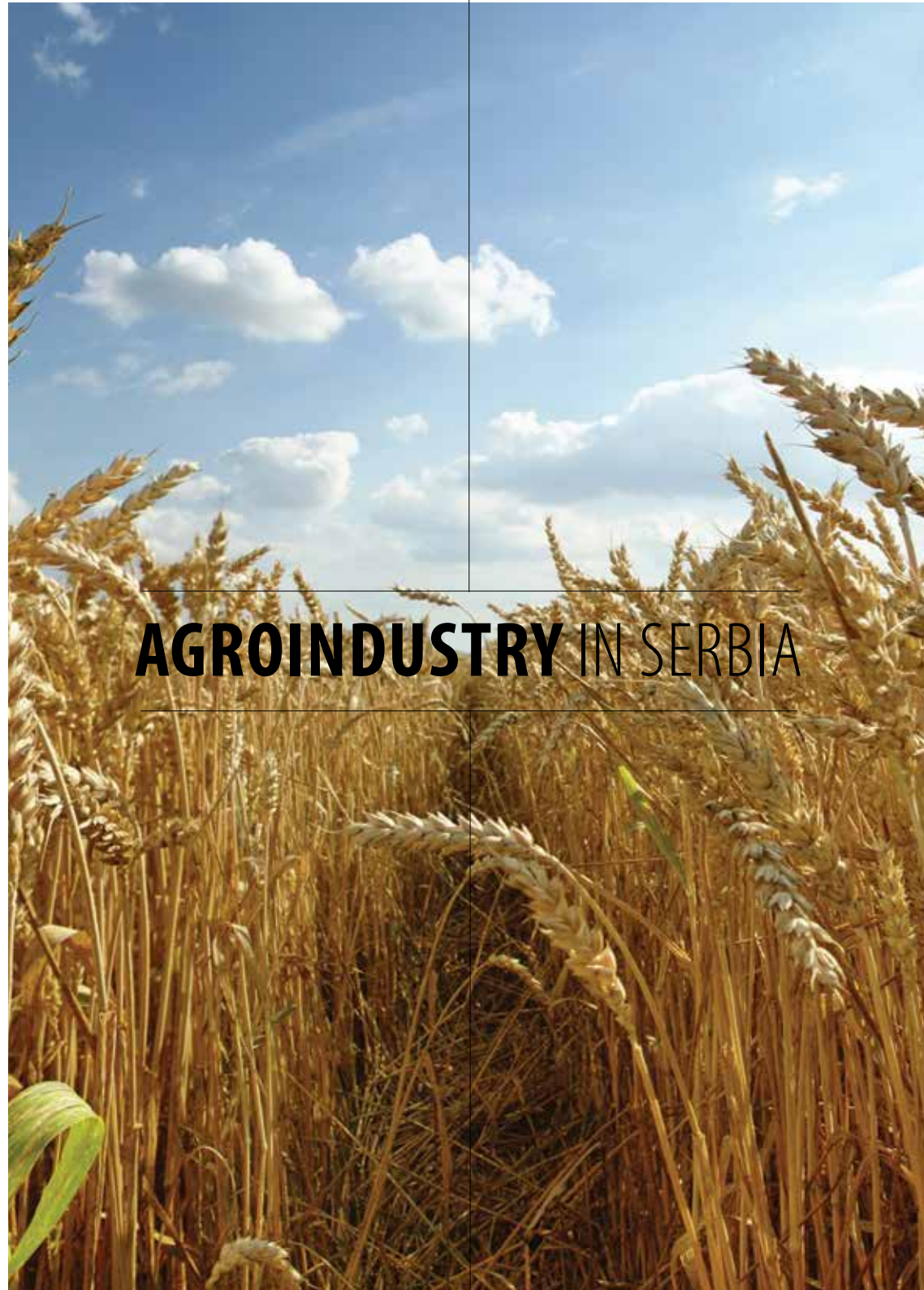


SERBIA FOOD INDUSTRY



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AGROINDUSTRY IN SERBIA

Serbia is a land of agriculture and the cult of food has always been an integral part of the country's culture. With over 6.12 million ha of agricultural land, out of which 60% is arable, perfect climate conditions blessed Serbia with diversity of fruit and vegetable varieties, some autochthonous sorts and other simply ample to be grown on Serbian land. **The lowest usage of fertilizers and pesticides in Europe, fertile soil, perfect yearly balance of sun and rain, tradition in growing of plants and care and expertize in making food products, makes Serbian food simply taste differently.** Whether it's fresh raspberries, apples, full fat milk, baby beef, paprika, or mint, food from Serbia brings the taste and spices of the country to the farthest corners of the Globe. **Agriculture and food production in Serbia have an extensive tradition. Serbia has been producing and exporting dry plums and swine livestock to Central Europe since 1820. Serbian canned ham has been finding customers all across the USA for the last 50 years, while bovine meat especially goat, is present in Arabic countries as well as on the European markets.**

In the past years Serbia is widely using fruits for processing: plums, all kind of berries, sour cherries, apples, pears, grapes, peaches, apricots etc. The processed fruit is used for a variety of products such as brandy, jams, juices, spreads, jellies, compotes etc. All kinds of vegetables and cereals are very common in traditional Serbian dishes.

The high point of agricultural production and processing development occurred in the 90s when Serbia, as a part of former Yugoslavia, exported the highest levels of different kinds of food products. Unfortunately, political problems and economic sanctions imposed on Serbia during that period halted the development of this export-oriented sector.

Since the democratic changes in Serbia in 2000, the Serbian agroindustry has rapidly re-emerged. Privatization of companies and a strong influx of foreign capital, combined with the experience of Serbian workers and Government support, are achieving incredible success in an industry which was in complete stagnation just a few years ago. The excellence of its agro-industry sector, well known locally as well as internationally, is one of the Serbia's

most celebrated example. Indeed, the agro-industry sector is one of the strongest components and most distinctive element of the Serbian economy, for its tradition. It has greatly contributed to the socio-economic development of the region also by means of its export-oriented attitude: in the food production and in the food-processing subsectors exports account respectively for about 25% and 35% of total Serbia turnover depending on the year.

SERBIA CLIMATE

Serbia climate is between a continental climate in the north, with cold winters, and hot, humid summers with well distributed rainfall patterns, and a more Adriatic climate in the south with hot, dry summers and autumns and rank daily average relatively cold winters with heavy inland snowfall. Differences in elevation, proximity to the Adriatic Sea and large river basins, as well as exposure to the winds account for climate differences. **This kind of climate conditions with hot summers and rainy autumns are ideal for intensive fruit production.** With more than 270 sunny days on average, Serbia produces a lot of red varieties of apples, different kinds of grapes, plums, peaches, pears and berries. The average annual air temperature for the area with an altitude of up to 300 m is 10.9°C. The areas with an altitude of 300 to 500 m, which is perfect for intensive production of blackberry and raspberry have an average annual temperature of around 10.0°C and over 1000 m of altitude around 6.0°C. This kind of climate condition is ideal for delicious fruit production with a huge content of dry material. Serbian sour cheery with a brix number of 21 is almost irreplaceable in processing industry throughout Europe.

ECONOMIC INDICATORS

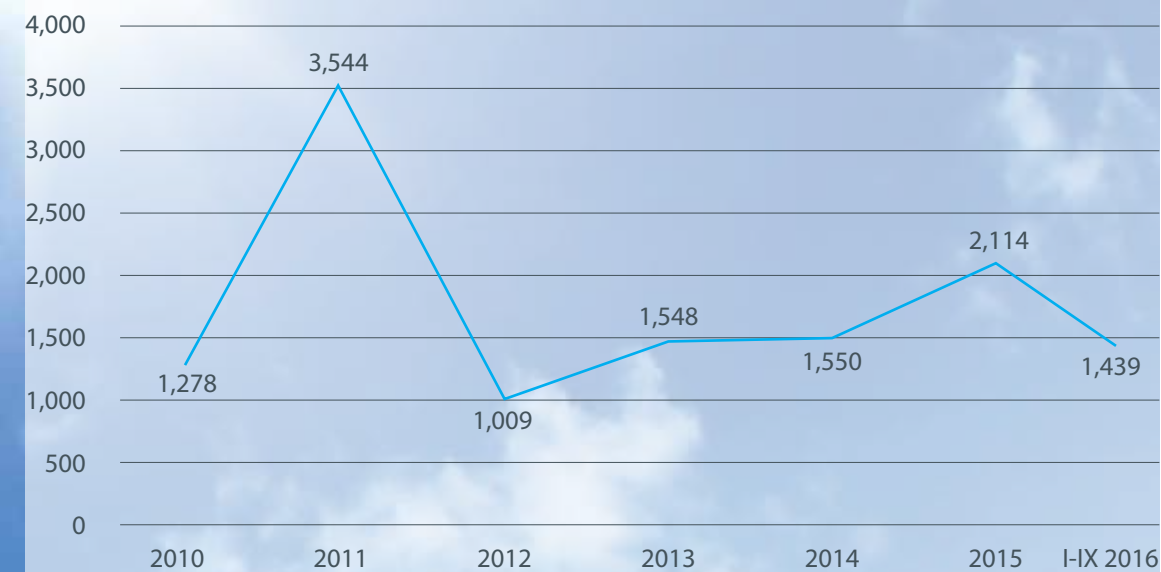
GDP Growth Rate (%)



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

SUCCESS IN ATTRACTING FDI

Inflow of FDI (million EUR)



Source: National Bank of Serbia

“

The business environment is stable, and it offers transparent market conditions, which creates a good starting point for our business growth in a long run.

”

Mr. Marco Aspesi,
VP Corporate Transformation at SR Technics Group

04

Since year 2007,

Serbia has attracted
€21 billion

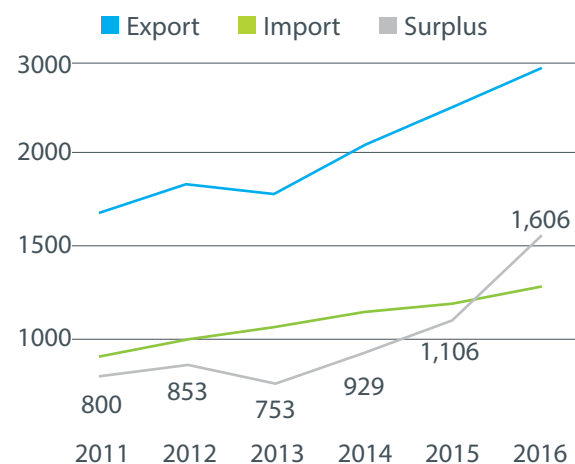
of inward foreign direct investment.

05

AGRICULTURAL TRADE

Food industry is one of the strongest points of the Serbian economy. Trade balance of agricultural products is in constant surplus. In 2016, Serbia had high surplus that amounted 1.6 billion EUR, which was 45% higher compared to 2015. Serbia is the biggest exporter of foodstuff among CEFTA countries and the only net exporter.

Trade balance in agricultural products (€ million)



Source: Statistical Office of the Republic of Serbia, Customs Administration

Key Food Export Partners in 2016 (€ thousands)

Bosnia and Herzegovina	393,541
Romania	336,266
Russian Federation	266,479
Montenegro	208,712
Germany	187,127
Macedonia	153,280
Italy	144,140
Croatia	102,767
France	78,613
Hungary	49,809

Main Export Products 2016	€ mil	Main Import Products 2016	€ mil
Maize	314	Tobacco	79
Cigarettes	250	Coffee	65
Raspberries, frozen	224	Cigarettes	39
Wheat	120	Bananas	37
Apples, fresh	115	Processed Tobacco	31
Beet or cane sugar, refined	113	Coffee extracts and concentrates	29
Non-alcoholic beverages	59	Meat of swine, frozen	28
Sweet biscuits, waffles and wafers	58	Wine	23
Animal feed	51	Food preparations with cocoa	22
Beer made from malt	42	Apples, fresh	21

Source: Statistical Office of the Republic of Serbia, Customs Administration

FOREIGN INVESTMENTS

This highly-attractive sector accounts for 11.7% of FDI stock since 2001. The United States' PepsiCo, Molson Coors, Coca-Cola, Austrian Rauch, Swiss Nestlé, Denmark's Carlsberg and others, choose Serbia as their preferable investment destination.

As an attractive investment location, **Serbia offers competitive operating costs, customs free access to 1.1bn consumers, financial benefits and availability of high quality labor,**

while investment security is fully guaranteed through the Law on investments.

Through its unique benefit of **Free Trade Agreement with Russian Federation,** customs union on one side, and EU on the other, Serbia is the only country in Europe which **offers custom free export** for food products to both of these abundant markets.



FINANCIAL BENEFITS AND INCENTIVES



Agricultural Incentives

Agricultural estates performing agricultural activities (milk and crop production, cattle breeding, etc.), and registered within the Register of Agricultural Estates are entitled to apply for agricultural incentives.

The incentives in the food processing aim at improving competitiveness and achieving quality standards.

Corporate Income Tax Relief

A 10-year Corporate Profit Tax Holiday is available for investors who hire more than 100 employees and invest more than 8.5 million euros (1 billion RSD). Tax holiday begins once the company starts making a profit.

Construction Land Transfer Subsidy

Government or the local municipality can sell construction land at a price which is lower than the market price in support of an investment project that is of national importance (if the land is owned by the government) or an investment projects that promotes local economic development (if the land is owned by the local municipality).

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, 2017:

- 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 Cash Grants)

Cash Grants

To offset initial capital investments and ease the start-up of business endeavours, the Government of Serbia offers financial support for Greenfield and Brownfield projects in manufacturing, and the services sector which may be subject to international trade.

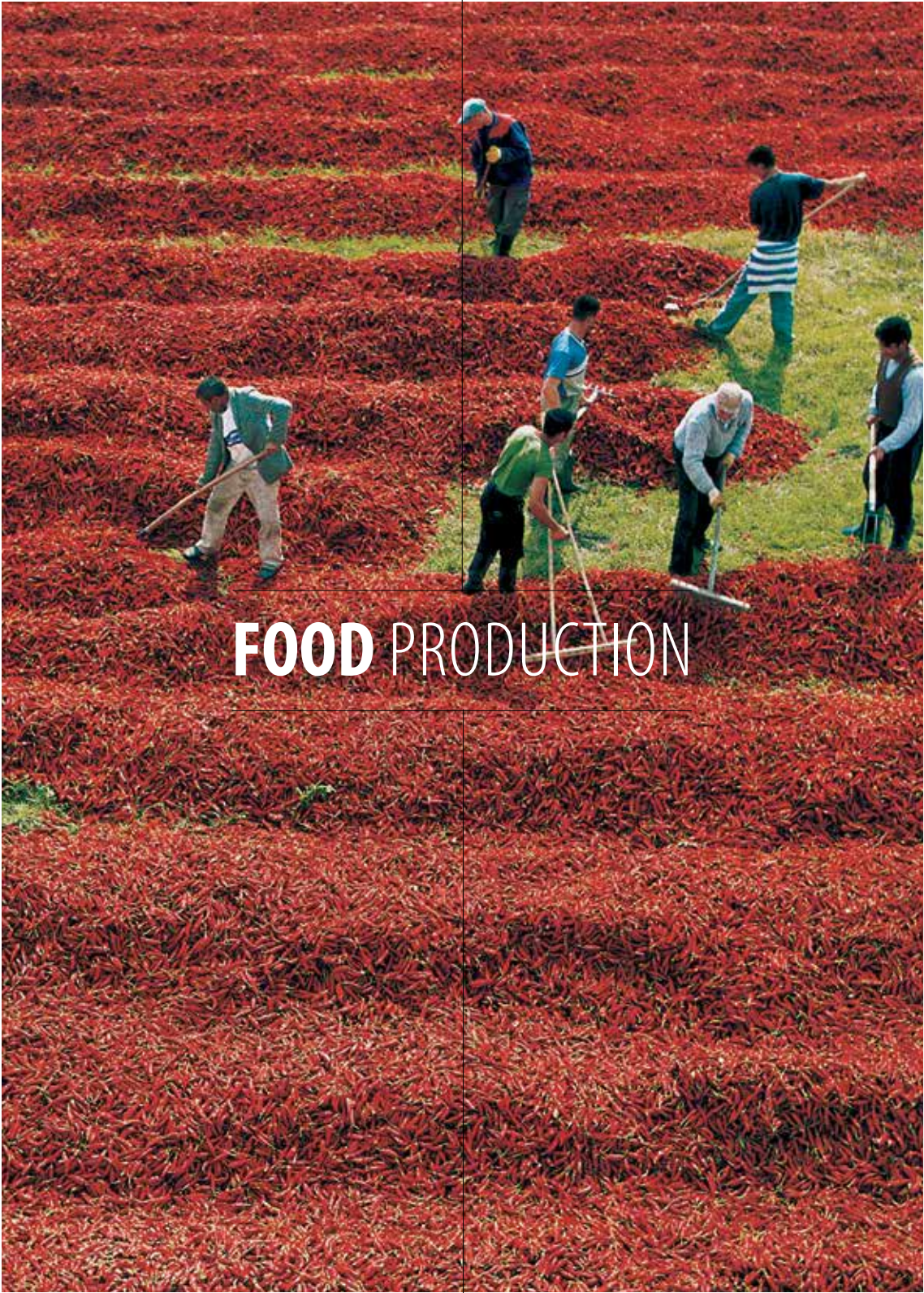
Double Taxation Avoidance

Republic of Serbia has 54 effective double taxation agreements in place that cover income, capital and property. In addition to having double taxation agreements in place with most European countries, Serbia has double taxation treaties in place with many countries in Asia and Africa.

EDUCATION

Serbian food production and food processing is supported by 4 universities, 16 specialized institutes and 26 secondary schools. In addition to excellent raw materials and conditions for producing high-quality, healthy food in Serbia, investors can also enjoy strong support from Serbia's widely recognized research institutes. Research mainly focuses on technologically-advanced production that leads to high-quality, environmental-friendly seeds and vegetable crop production. Moreover, Serbian law prohibits the production and import of any genetically modified (GMO) food and seeds.

Agricultural Universities	
Faculty of Agriculture, Zemun - University of Belgrade	
Faculty of Agriculture - University of Novi Sad	
Faculty of Agronomy, Cacak - University of Kragujevac	
Faculty of Bio farming, Backa Topola - Megatrend University Belgrade	
Faculty of Agriculture, Zubin Potok - University of Pristina	
Institutes	
Institute of Agricultural Economics	www.iep.bg.ac.rs
Institute of Molecular Genetics and Genetic Engineering	www.imgge.bg.ac.rs
Institute of Medicinal Plant Research	www.iplb.rs
Fruit Research Institute	www.institut-cacak.org
Pesticides and environmental protection institute	www.pesting.org.rs
Institute for Science Application in Agriculture	www.psss.rs
Institute for Animal Husbandry	www.istocar.bg.ac.rs
Institute for Plant Protection and Environment	www.izbis.com
Maize Research Institute	www.mrizp.rs
Institute for Vegetable Crops	www.institut-palanka.co.rs
Institute of Field and Vegetable Crops	www.nsseme.com
Institute of Soil Science	www.soilinst.rs
Institute of Food Technology	www.fns.uns.ac.rs
Institute of Meat Hygiene and Technology	www.inmesbgd.com
Scientific Veterinary Institute	www.niv.ns.ac.rs
Institute for Biological Research	www.ibiss.bg.ac.rs



FOOD PRODUCTION

FRUIT



Fruit production is one of the key sub-sectors of Serbia's economic development and therefore given a strategic treatment by the Government of Serbia. With fruit export of 57.6 euros per capita, Serbia is on the 13 place in the world, considering data from 2014. year. In 2016 export of Serbian fruits amounted 573,4 millions of euros. Serbia is largest provider of frozen fruit to French and Belgium market, and the second largest to the German market in 2016.

In 2015 Serbia accounted for more than 21% of entire world raspberry production.

With around 62.000 tons produced and export revenues amounting to \$230 million, **Serbia was the largest exporter of raspberries in 2016 globally.** Around 80-85% of raspberry production is intended for export, mainly frozen in bulk. This constitutes a huge potential for investors who are thinking to start a production of final products with all kinds of different berries such as: spreads, jams, toppings, ingredients for ice-cream industry, fruit cubes for yoghurt production, etc.

Besides berries, another fruit production has an important role in agricultural system of the country.

In 2016, Serbia was, measured by value of apples, the first exporter to Russian Federation. Serbia exported more than 108 million euros of apples annually. Massive apple orchards are expanding all across Serbia, especially in Vojvodina with premium melioration systems, trendy varieties and expensive anti-hail nets. With a Ferrero investment on Serbian market, vigorous potential is recognized for high intensive hazelnut production.

Fruit Production, 2016	Quantity (Tones)
Plum	463,115
Apple	328,369
Sour cherry	80,596
Raspberry	61,875
Peach	86,206
Grape	145,829
Sweet cheery	17,385
Pear	63,843

Source: Statistical Office of the Republic of Serbia

VEGETABLE



Ideal climate for vegetable production makes Serbia the main vegetable exporter and supplier of the South Eastern Europe.

The most popular vegetables produced in Serbia are: paprika (pepper), cabbage, tomato and potato.

Pepper production is oriented towards pasteurized pepper in different forms: shredded, cooked and roasted. Due to dry matter in it, majority of red pepper is used for production of aromatic spices, but also for preparing a traditional Serbian winter dish - "Ajvar" spread.

Ajvar is prepared using a special recipe, with red peppers and eggplants, and could nowadays easily be found on every continent. Serbia has two very famous markets and pepper production centers: Leskovac area for production of dry and fresh pepper and northern Serbia for production of mild, hot, and crushed pepper for industrial spices.

Beside pepper, cabbage production is second important in Serbia and it is traditional winter dish. Serbian sauerkraut is considered delicacy and local consumption during the winter is enormous. In the last few years, production of green peas and sweet corn is in constant rise due to the increased consumption of frozen, ready-to-eat, meals worldwide.

Vegetable Production, 2016	Quantity (Tones)
Tomato	160,456
Paprika	227,645
Cucumber	55,059
Potato	714,350
Peas	41,148
Cabbage	290,001
Onion	57,880
Melon and watermelon	207,983

Source: Statistical Office of the Republic of Serbia

MEAT



Livestock farming and meat processing in Serbia have a long tradition. The most popular meat products are fresh or smoked pork and beef, as well as poultry. At the same time, products such as pate, dry sausage of different types, hot dogs and smoked beef and pork are widely spread through all chains of supermarkets in the Balkan region. Serbian slaughterhouses and meat processing

houses have a strong position on the CEFTA market. However, Serbia's livestock has decreased over the last decade by 15 % on average, with lack of investments being one of the main reasons behind. That creates additional investment opportunities to match production capacities with the plenty of opportunity for further development of international placement.

DAIRY



Besides "kajmak", a creamy dairy spread originally made in Serbia, Serbia has various dairy products to offer internationally. Sour yoghurt, paprika in sour cream and white soft and hard cheeses are among the most popular ones. All of these products originate straight from century long tradition of Serbian cuisine. Fresh and pasteurized milk of the highest quality is mainly used for meeting high local consumption, but also easily finds export

markets in the neighbouring Montenegro and Bosnia and Herzegovina. However, after stabilisation of the domestic dairy market, Serbian export companies began to think more about conquering new markets, primarily Russia and Turkey, due to ratified Free Trade Agreements with those countries. So far, White salad cheese, sour cream spread, hard cheese and goat cheese have already found their customers on the demanding Russian market.

ORGANIC



SERBIA ORGANICA

Serbia Organica is a national association for the development of organic production. It is an independent, non-government and non-profit organization which serves as a one-stop-information-shop for investors, advising on potential investment opportunities and partners. Mission of the Union is to establish organic production as reliable and competitive agribusiness industry on domestic as well as on foreign market, but also to put 20% of agricultural land (1 million ha) under organic production over the next 10 years.

www.serbiaorganica.info

Serbia is blessed with climate, geographic position and other relevant preconditions for cultivation of organic food such as: high percentage of rural population, large arable land without chemical treatments and the proximity of the EU, main organic market.

On more than 15,000 hectares of agricultural land, Serbian organic production mostly consists of fruits and field crops, with constant growth of cereals and oilseeds production.

Most of these products are exported to the EU (Germany, Netherlands) and US market, but also there is high demand on the domestic market. Demand for organically grown producers exists in many countries, and Serbia with 2,000 producers of organic food, has excellent eco-climatic and technical conditions to cultivate, in addition to berries and fruits that are traditionally grown, also organic cereals and oilseeds.

Main Serbian organic products are:

- Grain and industrial plant: wheat, maize, barley, triticale, oat, rye, potato, flax, oilseed rape, sugar beet, sunflower, soy;
- Fruit: raspberry, cherry, blackberry, blueberry, apple, plum, peach, pear, quince, grape, aronia;
- Vegetable: paprika, cabbage, zucchini, onion, carrot, cauliflower, broccoli, pumpkin, melon, watermelon;
- Livestock products;
- Honey, propolis;
- Fattened carp;
- Spice and medicinal herbs, wild as well as collected in natural conditions.

SAFETY STANDARDS

HACCP certification is a mandatory precondition for export oriented food processing companies all across Serbia. Serbian Ministry of Agriculture and Environmental Protection conducted an initiative for a quick implementation of these standards. In that sense, Government of Serbia provides various types of grants for food production companies to help them acquire the necessary standards. Major European certification companies such as Evrocet, SGS, TUV Sava, TUV Nord, and Bureau Veritas have their offices in Serbia along with the domestic certification bodies.

Majority of export oriented companies possess ISO 9001:2008, 14001:2008, 22000:2009, BRC, IFS, Halal, Kosher, or GOST-R, depending on the buyer's demand and quite a few of them have already implemented Global Gap.





Production of agricultural machinery in Serbia has been in huge expansion since the 1950s. During that period industrialization assumed a big part within whole different types of industrial production, including agricultural machinery. Big companies such as IMR motor industry, IMT tractor and motor industry as well as Zmaj exported large volumes of machinery worldwide. At the peak of the production capacities, annual production of IMT was 43,000 tractors. Together with IMR they had more than 18,000 employees. The most significant markets were Northern Africa and Middle East.

Despite vast global competition, Serbian tractors are today present in all ex-YU and some African countries such as Ethiopia and Egypt. At the moment, there are more than 40 companies which have transferred their know-

how and technology from agro-machinery systems with extensive experience and tradition, in order to satisfy the demanding EU market for small implements.

The most important markets for Serbian agro-machinery implements are CEFTA and former USSR countries. Usually, offers of Serbian products consist of: tractors with lower power, moto cultivators, disc harrows, mowers, tedders, tillers, sprinklers etc.

Considering low-cost production inputs and energy, as well as lower taxes on profit, Serbian companies are able to achieve higher export performance in international markets. Moreover, Serbian companies from agricultural machinery sector are announcing penetration of new markets, in which they may be competitive due to quality products, certificates and good service networks.



RAS

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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.