

INVESTMENT OPPORTUNITIES IN BOSNIA AND HERZEGOVINA

Sarajevo, March 2012

FIPA



FOREIGN INVESTMENT PROMOTION AGENCY
OF BOSNIA AND HERZEGOVINA

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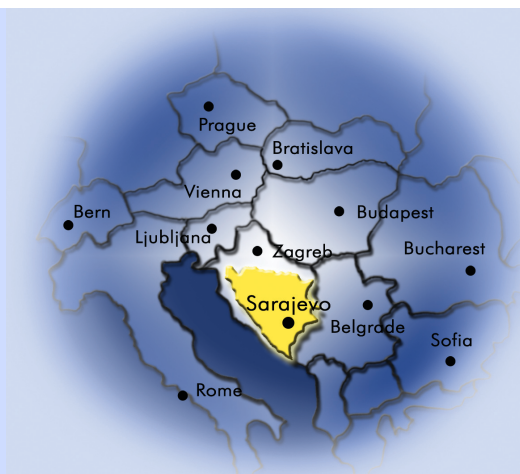


FOREIGN INVESTMENT PROMOTION AGENCY
OF BOSNIA AND HERZEGOVINA





BOSNIA AND HERZEGOVINA KEY FACTS



Official name:	Bosnia and Herzegovina (locally Bosna i Hercegovina, most commonly abbreviated as B&H)
Capital city:	Sarajevo (population 400,000)
Other major cities:	Banja Luka, B&Hac, Mostar, Tuzla, Zenica
Geographic location:	South Eastern Europe, borders with Croatia (932km), Serbia (312km) and Montenegro (215km).
Area:	51,209 km ²
Population:	3.84 million (estimation)
Religions:	Islam, Orthodox Christian, Roman Catholic, others
Ethnic groups:	Bosniaks, Serbs, Croats and others
Languages:	Bosnian, Serbian, Croatian (all official)
Administrative organisation:	Two entities (Federation of B&H and Republic of Srpska) and Brcko district of B&H
Government structure:	B&H is a parliamentary democracy with a bicameral parliament (House of Representatives and House of Peoples), three-member rotating presidency, Council of Ministers, and Constitutional Court
GDP:	13.0 billion EUR (2011)
GDP per capita:	3,392 EUR (2011)
Currency:	Konvertibilna Marka (BAM-official; KM-common use)

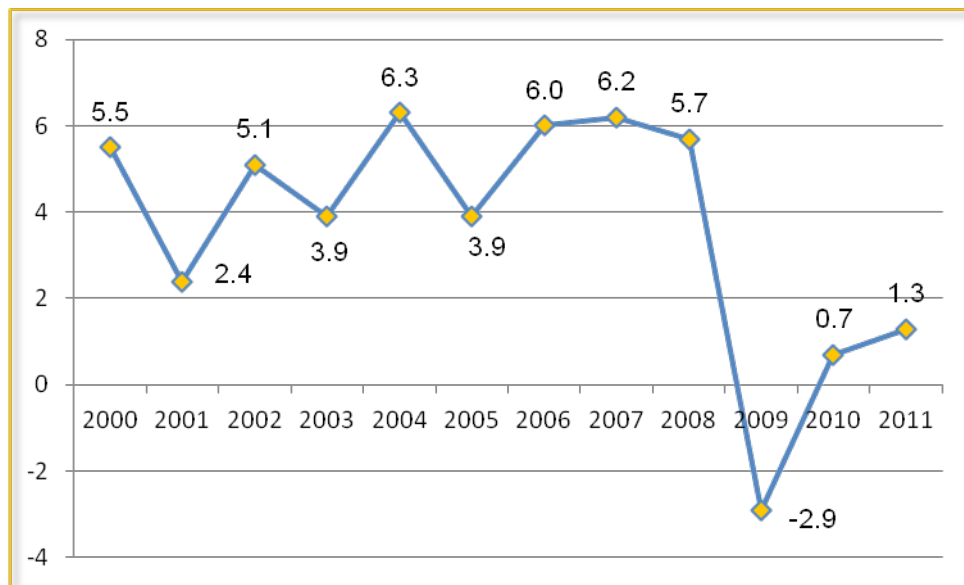
Exchange rate:	1 EUR = KM 1.95 (fixed exchange rate)
Landforms:	A very hilly country with the Dinaric Alps dominating the landscape. The highest point, Mt. Maglić, rises to 2,387m. Thick forests cover almost 50% of the land. In the north, along the Sava River valley, a hilly, fertile plain stretches east to west. The country has 20 km of coastline in the southwest of the country, providing access to the Adriatic Sea.
Climate:	Winters can be very cold with a lot of snow, especially in the hills and mountains. Summers are generally warm and comfortable, occasionally hot. Cooler temperatures in higher elevations.
Latitude/longitude:	44° N, 18° E
Time zone:	CET (GMT + 1 hour)
Internet domain:	.ba
Int. telephone code:	+387

GENERAL ECONOMIC INDICATORS

Indicators	2005	2006	2007	2008	2009	2010	2011
Nominal GDP (billion EUR)	8.8	9.9	11.1	12.6	12.3	12.6	13.0
GDP per capita (EUR)	2,283	2,564	2,898	3,289	3,194	3,271	3,392
Real GDP growth rate (%)	3.9	6.0	6.2	5.7	-2.9	0.7	1.3
Industrial production growth rate (%)	10.0	11.0	10.0	9.2	-3.3	1.6	5.6
Average net wages (EUR)	275	300	322	385	404	408	417
Annual inflation rate (%)	3.8	6.1	1.5	7.4	- 0.4	2.1	3.7
Annual unemployment rate (%)	43.0	31.0	29.0	23.4	24.1	27.2	27.6
Foreign currency reserves (million EUR)	2,160	2,787	3,425	3,219	3,176	3,301	3,284
Trade balance (billion EUR)	-3.96	-3.41	-4.14	-4.82	- 3.48	-3.33	-3.73
Flows of FDI (million EUR)	282	442	1,329	684	180	220	290
FDI contribution to GDP (%)	3.2	4.5	12.0	5.4	1.4	1.7	2.2
Deposits of households in Com- mercial Banks, million EUR	1,629	2,097	2,641	2,662	2,895	3,318	3,605
Population (in million)	3.84	3.84	3.84	3.84	3.84	3.84	3.84

Source: Agency for Statistics of B&H, Central Bank of B&H

REAL GDP GROWTH RATE (%)



Source: Agency for Statistics of BiH

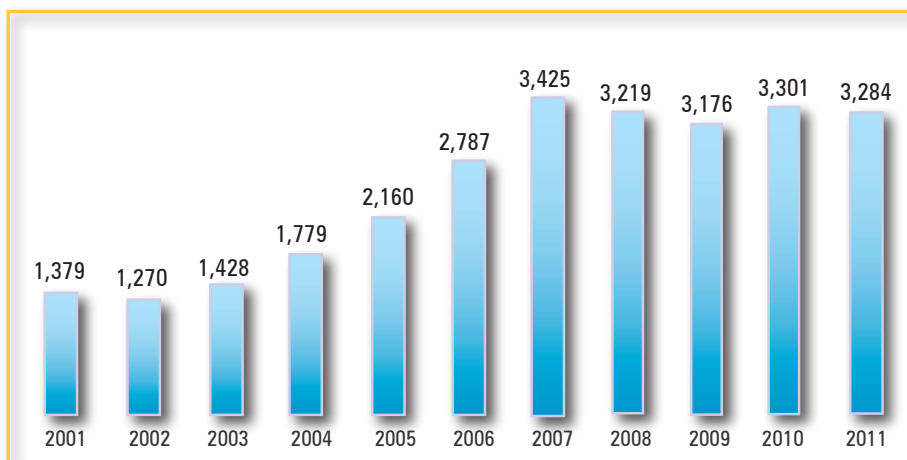
Gross Domestic Product (GDP) has been rising for years with average real growth rate of 5 % and has almost doubled in ten years. Negative effects of the global financial and economic crisis on B&H economy peaked in 2009. Slight progress was achieved in 2010, and GDP growth rate was 0.7% (In 2010 GDP amounted to 12.5 billion Eur).

World economic recovery in 2011 leads to the growth of B&H economy with the GDP growth rate of 1.3 % , with projected increasing trend in coming years.

In 2011 GDP amounted to 13 billion Eur and GDP per capita was 3,392 Eur.

The next couple years are expected to be a continuation of the slow but sustained growth of economy.

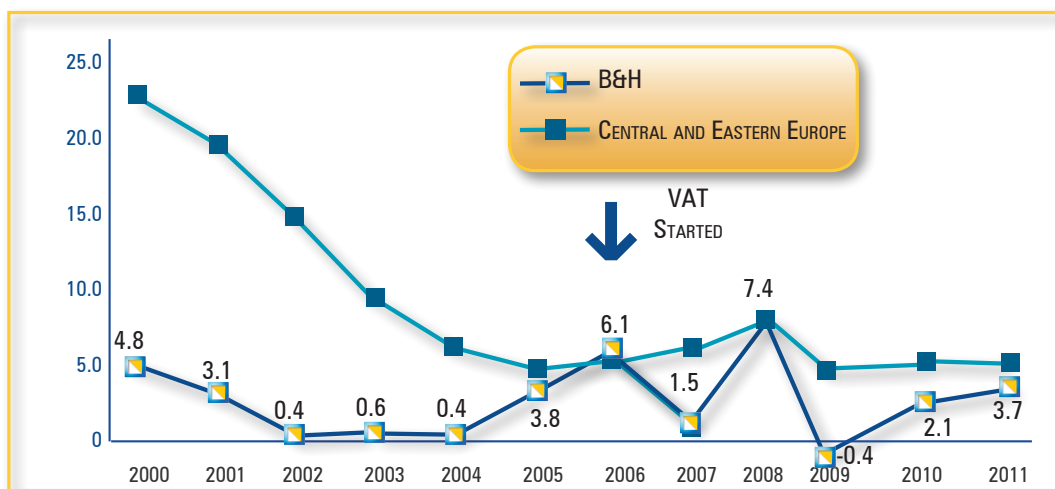
FOREIGN CURRENCY RESERVES, MILLION EUR



Source: Central Bank of B&H

In the previous period, the foreign currency reserves had a trend of increase year after year with a rate higher than 20%. In 2008 the foreign currency reserves have decreased as a result of the undertaken interventions to ease the negative repercussions of the financial crisis. In 2009 the foreign exchange reserves have stayed at the approximately same level. Slight progress was achieved in 2010 and has been retained at the same level in 2011.

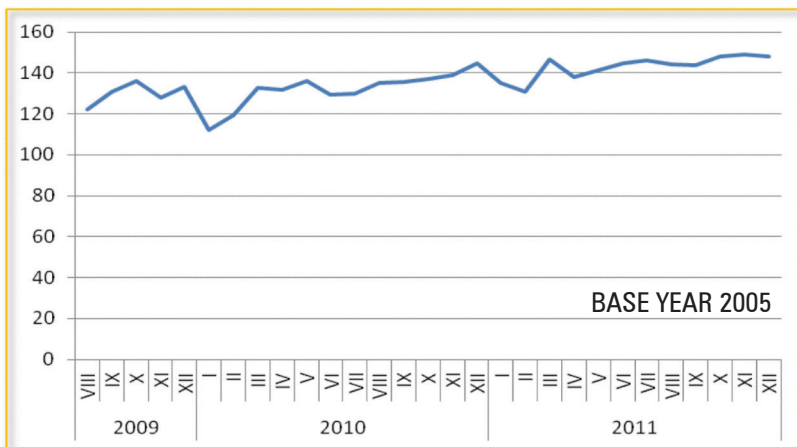
ANNUAL INFLATION RATE, %



Source: Agency for Statistics of B&H, International Monetary Fund

For years B&H had extremely low inflation rate. As the prices in B&H depend on the trends of prices at the global market, enormous growth of the oil prices in the period of global crisis influenced increase in prices of all products and services in 2008. The stabilization of the prices of oil and food had an impact on the reduction of prices in B&H, evident by considerably price slowdown and noted deflation in 2009. As it was expected inflation is stabilised in last year.

VOLUME INDEX OF INDUSTRIAL PRODUCTION IN B&H

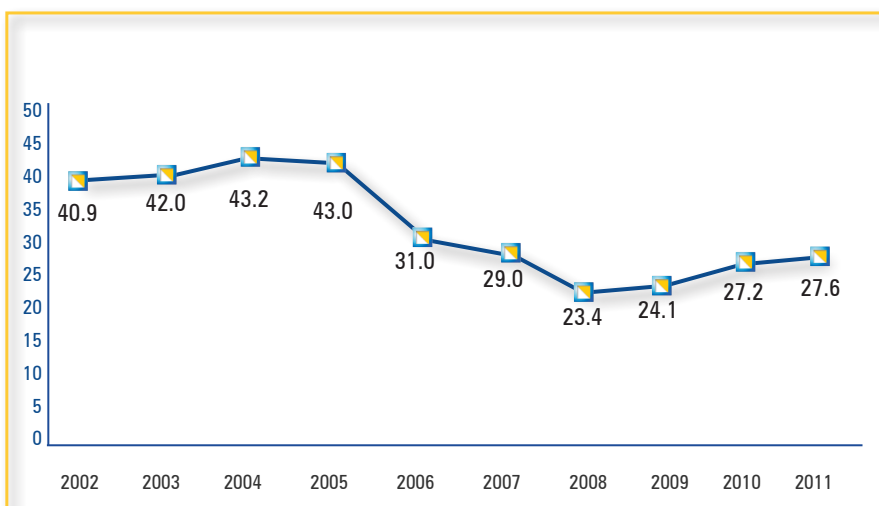


Source: Agency for Statistic of B&H

The Industrial production index measures changes in the volume of industrial production compared to the base period. The total industry index for the base year 2005 are given in time series from August 2009 to December 2011 in the chart above. Besides decrease in 2009, slight recovery in 2010 and 2011 is positive sign for future industrial production growth rate. In 2011 the rate of change in cumulative production, relative to the previous year was 5.6% .

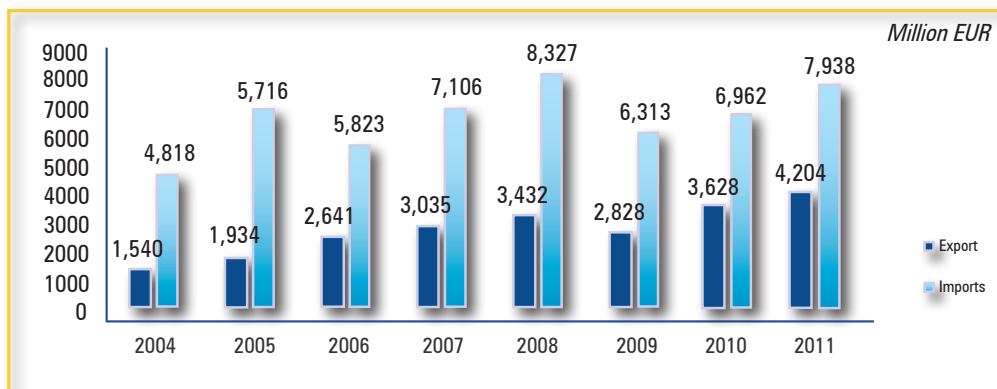
(Source: Agency for Statistics of B&H)

ANNUAL UNEMPLOYMENT RATE, %



Source: Agency for Statistics of B&H

EXTERNAL TRADE STATISTICS



Source: Agency for Statistics of B&H

EXTERNAL TRADE IN 2011

PRODUCT GROUPS - SITC	EXPORT (MILL EUR)	SHARE IN TOTAL EXPORT (%)	IMPORTS (MILL EUR)	SHARE IN TOTAL IMPORT(%)
Food and Live animals	248	6%	1,074	13%
Beverages and tobacco	30	1%	228	3%
Crude materials, except fuels	572	14%	257	3%
Mineral fuels and lubricants	603	14%	1,707	22%
Animal and vegetable oils and fats	30	1%	65	1%
Chemicals	233	5%	914	11%
Manufactured goods classified chiefly by material	1,097	26%	1,547	20%
Machinery and transport equipment	507	12%	1,475	19%
Miscellaneous manufactured articles	883	21%	670	8%
Commodities and transactions, n.e.c.	1	-	1	-
Total	4,204	100%	7,938	100%

SITC - Standard International Trade Classification

Source: Agency for Statistics of B&H

Compared to the 2008 trade deficit is reduced, but it is still one of the challenges of B&H's economy. The trade balance in 2011 was -3.73 billion EUR. Compared to 2010, exports increased by 15.9% and imports by 14.0%.

In order to eliminate a trade deficit The Government supports export oriented companies through the additional incentives.

COUNTRIES, 2011	Exports (in 000 EUR)	Imports (in 000 EUR)
Developed Countries	2,530,066	4,294,906
EU Countries	2,345,136	3,602,427
EFTA Countries	84,642	47,727
Other Developed Countries	100,288	644,752
Developing Countries	1,604,573	3,643,033
European Developing Countries	1,503,542	2,861,933
African Developing Countries	37,519	17,460
Asian Developing Countries	62,089	545,836
American Developing Countries	1,395	217,786
Oceanian Developing Countries	28	18
Not classified	69,260	86
TOTAL	4,203,899	7,938,025

Source: Agency for Statistics of B&H

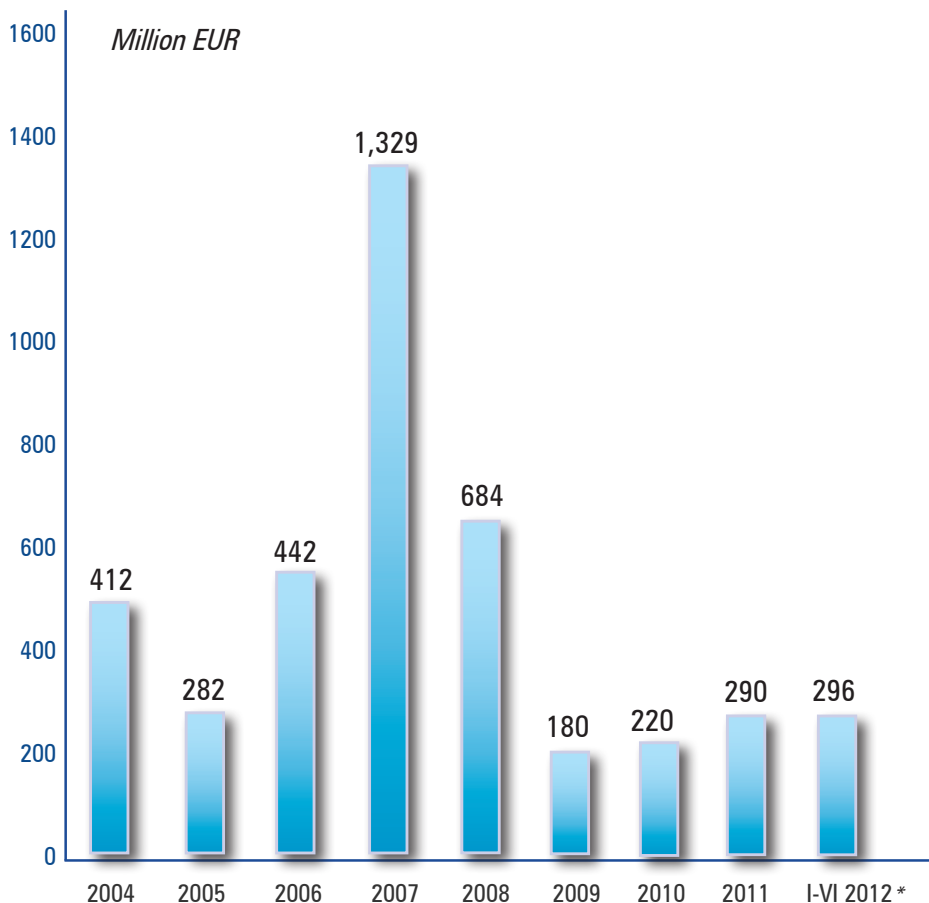
MAJOR FOREIGN TRADE PARTNERS (IN 000 EUR)

COUNTRY	SHARE %	2010	SHARE %	2011
Total	100%	10,589,729	100%	12,141,924
CROATIA	15.11	1,600,125	14.45	1,754,215
GERMANY	12.12	1,283,822	12.06	1,464,524
SERBIA	11.22	1,188,371	10.39	1,261,625
ITALY	10.01	1,059,608	9.88	1,199,099
RUSSIAN FED.	5.92	627,354	7.11	863,201
SLOVENIA	6.86	726,339	6.47	785,028
AUSTRIA	4.63	490,670	4.68	567,903
CHINA	3.20	338,974	3.30	400,322
USA	2.43	257,734	2.72	330,246
TURKEY	2.22	235,535	2.53	306,859
HUNGARY	2.62	277,608	2.30	278,751
CZECH REP.	1.70	180,012	1.81	220,016
FRANCE	1.74	184,111	1.71	208,130
POLAND	1.57	166,712	1.69	205,370
MONTENEGRO	1.71	181,366	1.44	174,381
TOP 15	83.08	8,798,341	82.52	10,019,669

Source: Agency for Statistics of B&H

FOREIGN DIRECT INVESTMENT IN B&H

Flow of FDI in Bosnia and Herzegovina, by years



Source: : Central Bank of BiH 2004 - 2011, * preliminary data for 2012

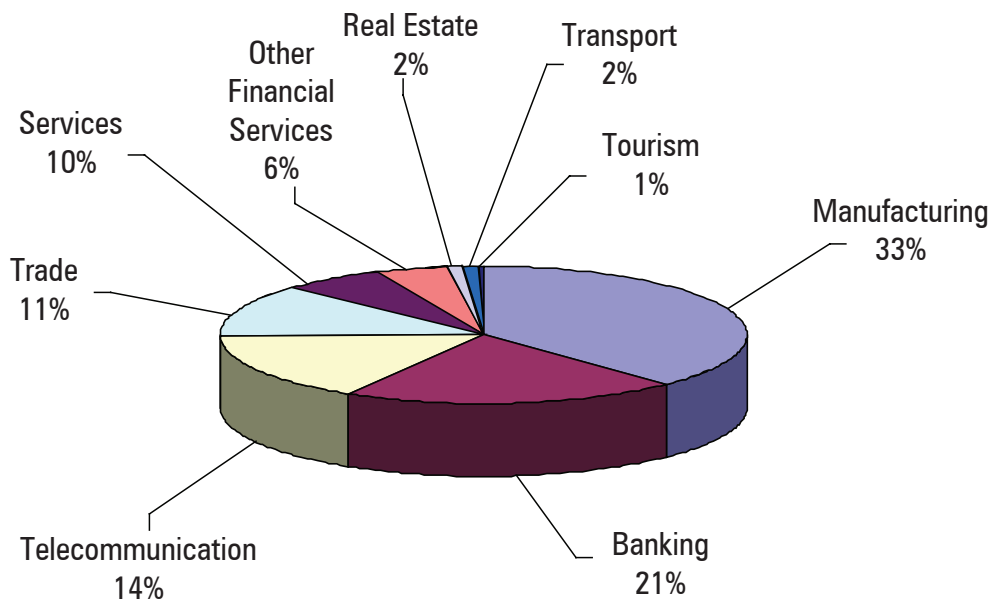
Note: Values present Flow of foreign direct investment in BiH (including inflow and outflow of assets and liabilities of FDI in BiH)

In 2007 we attracted 1.3 billion Eur which is absolutely the highest amount recorded in the last 15 years mainly thanks to the privatization of certain large state-owned enterprises. In 2008 FDI inflow was 684 mill Eur, without the expected privatization, can be considered as satisfied, especially if we take into account its positive structure (investment in production sector and high contribution of Greenfield investments). In 2009 the global economic crisis hit the inflow of FDI.

Data for 2010 and 2011 confirm a slight recovery, while the announced investments, planned projects and preliminary data for 2012 make us optimistic regarding future FDI.

FOREIGN DIRECT INVESTMENT IN B&H BY SECTORS

TOTAL AMOUNT 5.4 BILLION EUR
(MAY 1994 – DECEMBER 2011)



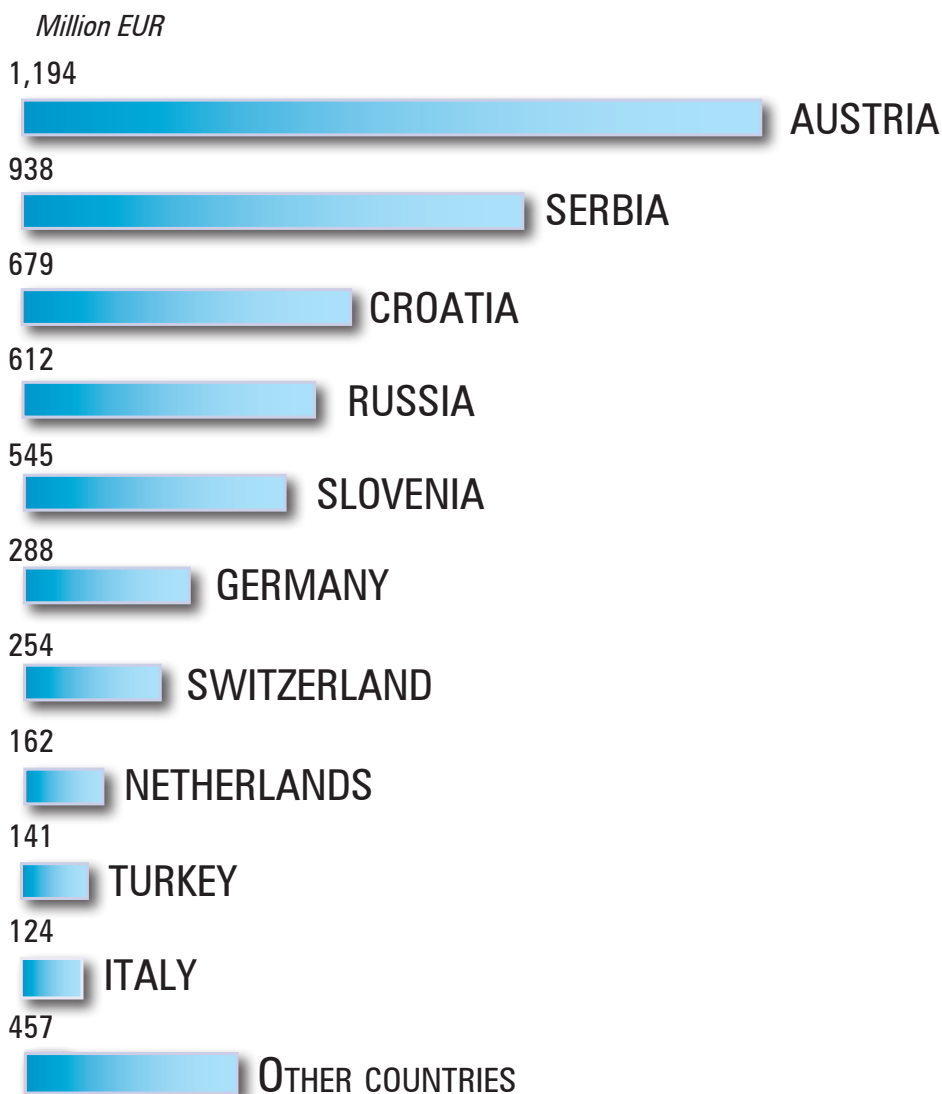
Source: Central Bank of B&H

Due to the good reputation and long industrial tradition of B&H, the manufacturing sector received the most amount of FDI. The biggest share of investment is in the production (33%) and banking (21%) sectors.

In the forthcoming period there is a plan to conduct the privatisation of the state-owned companies. Additional important investments are expected in the energy sector through construction of new and revitalization of the existing facilities and plants.

TOP INVESTOR COUNTRIES IN B&H (1994 - 2011)

Total FDI amount 5.394 million EUR (stock)



Source: Central Bank of BiH

The capital of foreign investors, from 91 countries, was invested in B&H, in the period from May 1994 to December 2011. European countries have invested more than 90% of total FDI in B&H. The most investment was realized by the companies from Austria 22.1%, Serbia 17.4%, Croatia 12.5%, Russia 11.3%, Slovenia 10.1%, Germany 5.3%, Switzerland 4.7%, Netherland 3.0%, Turkey 2.6% and Italy 2.3%.

WHY INVEST IN BOSNIA AND HERZEGOVINA?

1. ENVIRONMENT FOR INVESTMENT

B&H's accelerated Economic Reform Process has contributed significantly to a greatly improved business climate. The aim of B&H is to eliminate legal and administrative obstacles for doing business in B&H, as well as create the most attractive business environment in the SEE.

The main goal of B&H is EU membership. Bosnia and Herzegovina is a potential candidate country for EU accession and B&H has signed the Stabilization and Association Agreement with the European Union, which is a step toward EU membership.

Bosnia and Herzegovina has signed the Central European Free Trade Agreement (CEFTA), creating a free trade zone with access to a large consumer market. Also, the process of negotiation to join the World Trade Organisation is underway.



„There are many reasons why investing in Bosnia and Herzegovina is an attractive option for foreign companies. I believe it should be that investing in Bosnia and Herzegovina, is a clever way of investing in Southeast Europe.”

High Representative and EU Special Representative,
Valentin Inzko

2. FINANCIAL STABILITY

Bosnia and Herzegovina has the most stable currency in the South East Europe, which is directly linked to the Euro. Central Bank of Bosnia and Herzegovina maintains monetary stability by issuing domestic currency according to the Currency Board arrangement with full coverage in freely convertible foreign exchange funds under fixed exchange rate 1 KM: 0,51129 EUR.

The banking sector dominates the financial system in BiH with 84% of the total assets of the financial sector (end 2010). Privatization of the banking sector is almost completed, 95% of total assets and 82% of equity is concentrated in banks with majority foreign ownership.

Source: "Impact of the financial crisis on BH economy" by Kemal Kozarić, Governor of the Central Bank of B&H, January 16, 2012

B&H was assigned B credit rating by Standard & Poor's Agency with stable outlook (March 2012) and B3 sovereign credit rating with stable outlook by Moody's Investors Service (July 2012).

3. PRIVATIZATION

Great investment opportunities in Bosnia and Herzegovina are in the process of privatization. Privatization in Bosnia and Herzegovina is an overall process, through which attractive investment opportunities are opened up to foreign investors in sectors such as the energy sector and telecommunications. Bosnia and Herzegovina is accelerating the privatization process for companies of strategic importance in order to increase economic growth and enhance the volume of foreign investment.

In the Federation of B&H, the privatization process is conducted by the Agency for Privatization of FB&H and by cantonal privatization agencies, while in the Republic of Srpska it is the responsibility of the Investment and Development Bank of RS.

State owned capital in the enterprises dealing with generation and distribution of electricity, railway traffic, telecommunications, water supply, mining, forestry, public media, games of chance, arms industry and military equipment, and in other enterprises of strategic importance, is privatized in accordance with this law, but under special Government privatization programs.

Nevertheless, a number of these "strategic enterprises", which includes large enterprises, telecommunications and power utilities sectors, public utilities, mines, etc, are not still privatized, presenting a choice of opportunities for potential foreign investors.

Domestic and foreign natural persons and legal entities may be buyers in the privatization process.

Privatization of strategic companies is underway. Privatization of state monopolies: telecoms, energy: utilities – electricity, etc. is ongoing process.

For more information see:

- ▶ Investment and Development Bank of Republic of Srpska
www.irbrs.net
- ▶ Agency for Privatization of Federation of B&H
www.apf.com.ba

4. FAVOURABLE LEGISLATIVE TREATMENT

- ▶ The Law on the Policy of Foreign Direct Investment, in force since 1998, ensures national treatment of foreign investors, i.e. foreign investors have the same rights and obligations as defined for the residents of B&H.
- ▶ In addition, the rights and benefits of foreign investors granted and obligations imposed by the Law cannot be terminated or overruled by subsequently passed laws and regulations. If any subsequently passed laws and regulations are more favourable for the foreign investors, the investors have the right to choose under which regime the respective foreign investment to be governed.
- ▶ Foreign investors are entitled to open accounts in any commercial bank in domestic or any freely convertible currency on the territory of B&H.
- ▶ Foreign investors are entitled to freely employ foreign nationals, subject to the labour and immigration laws in B&H.
- ▶ Foreign investors are protected against nationalisation, expropriation, requisition or measures having similar effects; such measures may take place only in the public interest in accordance with the applicable laws and regulations and against the payment of an appropriate compensation, i.e. compensation that is adequate, effective and prompt.
- ▶ Foreign investors may own real estate in B&H and have the same property rights with respect to real estate as any legal entity of B&H.
- ▶ Foreign investors are entitled to transfer abroad, freely and without delay, in freely convertible currency, any proceeds resulting from their investment in B&H.

- ▶ There are no restrictions on management of companies with foreign capital. The founder selects the management him/herself.
- ▶ Equipment being imported as a part of share capital is exempt from paying customs duties (this exemption does not refer to passenger vehicles, slot and gambling machines).

For more information see:

- ▶ Foreign Investment Promotion Agency of B&H
www.fipa.gov.ba

5. FREE TRADE ZONES

A free zone is part of the customs territory of Bosnia and Herzegovina, which is specially fenced and marked and where business activities are carried out under special conditions in accordance with the Law on Customs Policy of B&H and the Law on Free Zones of B&H. A founder of free zone can be one or more national or foreign legal and natural persons and a user of free zone can be the founder of free zone or any other legal and natural person.

The Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina shall institute the procedure for the adoption of decision of the Council of Ministers of Bosnia and Herzegovina on designation of parts of the customs area of Bosnia and Herzegovina as a free zone if it is economically justified and if the requirements for establishment of a free zone set out in the Law on Free Zones of B&H and Law on Customs Policy of B&H have been met. Establishment of a free zone shall be considered as economically viable, if the feasibility study for the establishment of free zone and other evidence submitted provide grounds for estimation that value of goods exported from the free zone will exceed at least 50% of the total value of manufactured goods leaving the free zone in a period of 12 months. Users of free zone do business in the area of free zone under special conditions in accordance with the Law on Customs Policy of B&H and the Law on Free Zones of B&H, on the basis of concluded contracts with the founder of free zone, with prior approval of the customs authorities.

Any industrial, commercial or service activity, (banking, insurance and reinsurance of property and persons, etc.), can be carried out in the free zone. The users of free zone do not pay VAT and import customs. Investment in the free zone, transfer of profit and transfer of investment are free of charge.

Customs and tariffs are not paid on imports into the free zone. The imports of equipment that will be used for manufacturing within the free zone are exempt from paying customs duties and fees.

The users of free zone do not pay VAT and import customs. Investments in the free zone, transfer of profit and transfer of investment are free of charge.

The import of equipment that will be used for manufacturing within the free zone is exempt from paying customs duties and fees.

TAXATION

One of the main reasons for investing in B&H is also favorable tax system. Bosnia and Herzegovina has one of the lowest rates of VAT (17%) in the region and Europe, as well as the very acceptable corporate tax rates that are also among the lowest in the region and Europe (10%).

The taxation categories at state level:

► Value Added Tax

Unique VAT tax rate is 17%.

► Excises Duties

Excises are a special type of sales tax paid on some commodities like: oil products, non-alcoholic drinks, soft drinks, alcohol drinks, coffee and tobacco products:

- oil products (per litre) - BAM 0.30 (BAM 0.40 motor petrol and BAM 0.35 unleaded motor petrol),
- non-alcoholic drinks (per litre) - BAM 0.10,
- soft drink (per litre) - beer BAM 0.20 and wine BAM 0.25,
- alcoholic drinks and Ethyl alcohol (per litre) - BAM 15,
- raw coffee (per kilo) - BAM 1.50 (BAM 3.00 roasted and ground coffee; BAM 3.50 for coffee extract),
- tobacco products - 42% on the tax base plus a special excise depending of the number of boxes.

The taxation categories at entity level:

▶ Corporate Income Tax

Corporate tax rate is 10% on the whole territory of Bosnia and Herzegovina.

▶ Withholding Tax

Withholding tax rate is 10% in FB&H (5% on dividends) and 10% in RS (10% on dividends).

▶ Personal Income Tax

In FB&H, personal income tax is 10% on net wage (tax base calculated in accordance with gross model).

In RS, personal income tax is 10% on net wage (tax base calculated in accordance with gross model).

In BD, personal income tax is 10% on net wage.

▶ Property Tax

Property tax rates depend on the location of the property. In FB&H, the property (sale) tax rate is 5%. In FB&H the tax base is the value of the property estimated by the commission appointed by the local tax administration office (according to the seat of the property).

In RS, property tax rate cannot be less than 0.05% of the appraised value of real estate, and shall not exceed 0,50% of the appraised value of real estate.

In Brcko Distrikt, the tax rate on real estate cannot be less than 0.05% of the appraised value of real estate, and shall not exceed 1,0% of the appraised value of real estate.

CONTRIBUTIONS

In Republic of Srpska, as well as in the Federation of B&H, contributions are calculated on the basis of gross wage. Gross wage includes net wage earned by regular employment, multiplied by the determined coefficient, plus contributions from wage. In Brcko district, pension insurance contributions are regulated by entity laws.

a) Employee's Share:

- FB&H: 17% for pension insurance, 12.5% for health insurance, 1.5% for unemployment insurance (in total: 31% on gross wage).
- RS: 18% for pension insurance, 12.5% for health insurance, 1% for

unemployment insurance, 1.5% for child protection (in total: 33 % on gross wage).

- Brcko district: 17% for pension insurance for employers who apply FB&H law and 18% for pension insurance for employers who apply RS law, 12% for health insurance and 1.5% for unemployment insurance (in total 30.5 or 31.5% on gross wage).

b) Employer's Share:

- FB&H: 6% for pension insurance, 4% for health insurance, 0.50% for unemployment insurance (in total: 10.50% on gross wage).
- Brcko district: 6% on gross wage for pension insurance for employers who apply FB&H law.
- In Republic of Srpska no such contributions are paid.

INCENTIVES FOR FOREIGN INVESTORS

The B&H government supports foreign investments with a number of measures, including:

1. State Level Incentives

- Foreign Investor Support Fund*
- Equipment of the foreign investor being imported as part of share capital is exempt from paying customs duties (with the exception of passenger vehicles, slot and gambling machines).

2. Entity Level Incentives

Tax Benefits

2.1. In the Federation of B&H

- Law on Corporate Income Tax enables the taxpayer, who in the year for which the corporate income tax is being determined, has achieved 30% of their total revenue by export to be exempted from the tax payment for that year.
- The taxpayer who in the period of five consequent years invests into production in the value of minimum 20 million BAM, on the territory of the FB&H, is being exempted from the payment of corporate income tax for the period of five years beginning from the first investment year, in which minimum four million BAM must be invested.
- The taxpayer who employs more than 50% of disabled persons and persons with

*Allocation of the Investor Support Fund's means is dependable on the Council Ministers BiH budget

special needs longer than one year is being exempted from the payment of corporate income tax for the year in which more than 50% disabled persons and persons with special needs were employed.

2.2. In the Republic of Srpska

Amendments of the Law on Profit Tax introduced tax base reduction in the value of investment, for:

- Investment in equipment intended for the company production activity
- Investments in plants and immovable property used for manufacturing and processing activities

And also tax base reduction in amount of paid personal income tax and mandatory constitution for the employer:

- Employing 30 workers during a calendar year (workers who were on the official evidence of Employment Office of RS)

Also, in RS, the new incentives have been established by the Decree on Conditions and Implementation of the Investment and Employment Support Program (Official Gazette of RS No 70/12). The aim of these incentives is encourage and support direct investments, employment growth and transfer of new knowledge and technologies.

Participants in this funding award may be investors with existing investment projects in manufacturing sector in the territory of the Republic, which provide new employment and submit along with the application all necessary documentation to the Ministry of Finance of RS, after announcement of a public call. Total funding to be awarded shall be set in proportion to the value of investment in manufacture sector and number of the newly employed, taking into account also the place of investments and fulfillment of criteria determined by the Decree, of minimum investment value of BAM 2,000,000 and providing employment for at least 20 workers, in the territory of:

- the developed and medium-developed local self-governance units in the Republic (development level is set in accordance with the RS Government decision), in the amount of BAM 3,500 and
- the underdeveloped and extremely underdeveloped local self-governance units in the Republic, in the amount of BAM 5,000.

But, investment projects with investment value over BAM 25,000,000, which offers employment to at least 100 new employees, regardless of the level of development of the local self-governance unit where the investment takes place, after submission of the application will receive the funds in the amount of 15% of the total value of investment. Determined conditions under which the funding will be realized are: property acquired through direct investment needs to be used exclusively by the beneficiary of the funding,

- investor cannot reduced the number of persons employed for an undefined period during previous year, counting from the date of issue of public competition, and during

the period of implementation of the investment project

- after implementation of the investment project, i.e. after payment of the last amount of the awarded funding, number of persons employed by funding beneficiary for undefined period will not decrease during at least three years after such payment.

2.3. Other Incentives

In both entities, foreign investors, who have the same status as domestic companies, can also apply for incentives that are planned and allocated from the state budgets. Incentives such as e.g. incentives for tourism development, agricultural subsidies, and support projects to small and medium-sized enterprises: are awarded on the basis of a public call which is announced by the competent institution. Companies compete on the basis of conditions that are mentioned in public call. Funds from the public call for above mentioned programs are awarded on the basis of project application, beneficiaries program and required documentation. These programs, in principle, remain more or less the same every year. Companies also have the option to apply for funds from entity investment and development banks with their development projects.

3. Brcko district B&H

In 2006, the Government of Brcko district of B&H adopted the Law on incentives to economic development (Official Gazette no. 13/06, 19/07, 17/10) in order to create a favorable business environment for foreign investments in Brcko district.

The most significant incentives, defined by the Law on incentives to economic development in Brcko district are:

- Exemption from utility fees for displaying the company;
- Compensation of court fees for registration of a business entity and the change entry in the register for newly established enterprises and entrepreneurs;
- Compensation of expenses of connection to power, water and sewage network;
- Compensation of paid fees necessary for obtaining the location conditions, building permits and approvals for the use of the facility;
- Compensation of expenses in amount of the difference in price of electricity and water paid by the company and the price paid by households;
- Compensation for paid employment contribution in the total amount for newly employed persons;
- Compensation for salary for maternity leave in amount of 100%,
Stimulation of the employer in amount of 50% of total duties for health insurance of newly employed workers from the moment of obtaining the benefit;
- Compensation for amount of new investments invested in purchase of fixed assets and up to the amount of determined and paid profit tax or income tax in period for the year in which purchases of fixed assets was made, provided that the difference between the amount of profit tax or income tax and made supply can not be transferred to next year.

AGREEMENTS ON AVOIDANCE OF DOUBLE TAXATION

Bosnia and Herzegovina has Agreements on avoidance of double taxation with the following countries:

Albania	Algeria	Austria	Belgium	China
Croatia	Czech Republic	Cyprus	Denmark	Egypt
Finland	France	Germany	Hungary	Iran
Ireland	Italy	Jordan	Kuwait	Malaysia
Moldova	Montenegro	Netherlands	Norway	Pakistan
Poland	Qatar	Romania	Serbia	Slovakia
Slovenia	Spain	Sweden	Sri Lanka	Turkey
United Arab Emirates	United Kingdom and Northern Ireland			

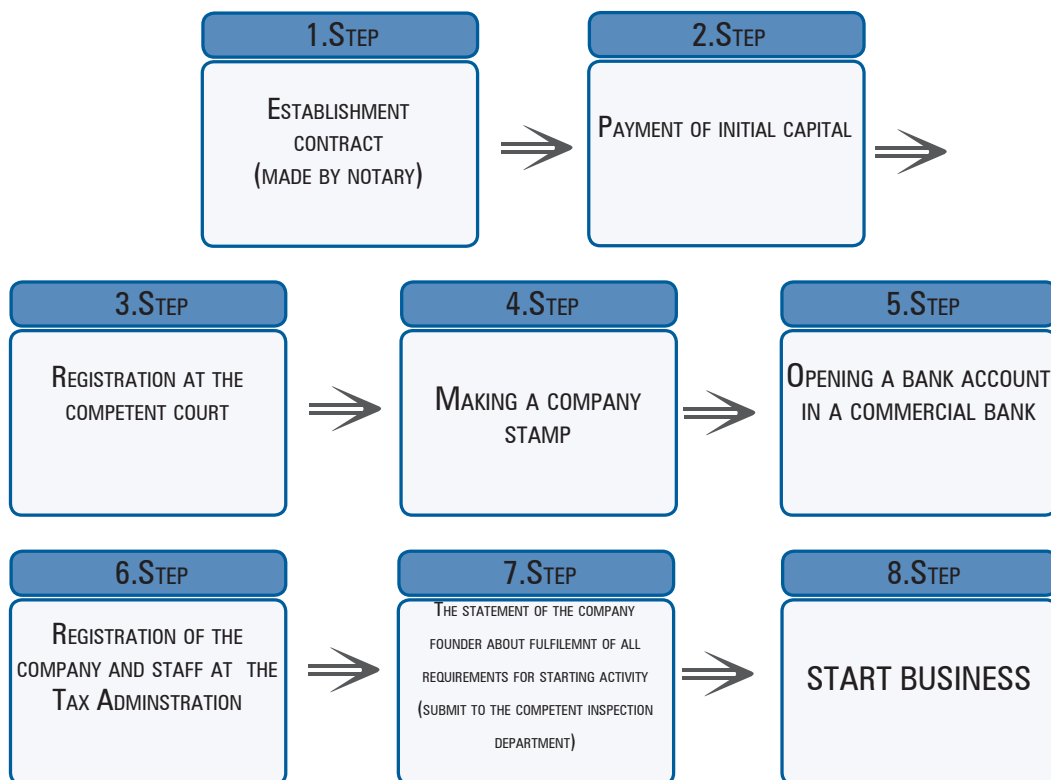
Agreements on Avoidance of Double Taxation, which mean that companies only have to pay tax in their home country, accelerate the flow of investments into the signatory countries, encourage joint ventures, create more investment opportunities, expedite the transfer of technology and constitute a legal framework to bolster economic cooperation and enhance strategic economic partnership.

TYPES OF COMPANIES

The Company Law of the Federation of B&H (Official Gazette of FB&H No. 23/99, 45/00, 2/02, 29/03, 68/05, 91/07, 84/08, 7/09 and 63/10) and the Company Law of Republic of Srpska (Official Gazette of RS No. 127/08, 58/09 and 100/11) regulate the establishment, operation and termination of businesses in B&H.

TYPES OF COMPANIES	FEDERATION OF BOSNIA AND HERZEGOVINA	REPUBLIC OF SRPSKA
Unlimited Joint Liability Company (d.n.o./o.d.)	Founded by the establishment contract of 2 or more partners, domestic or foreign, natural persons only; Founders are liable to use all their assets, including personal property; There are no requirements for minimum or maximum contributions.	Founded by the establishment act of 2 or more domestic/ foreign natural and/or legal partners who commit to do certain activity under the same company name, with their own solidary liability for company commitments; There are no requirements for minimum or maximum contributions.
Limited Liability Company (d.o.o.)	Founded by the establishment act or establishment contract by 1 or more domestic/foreign natural and/or legal entities with initial capital divided in parts; A member in a limited company is liable for the value of his investment in that company; Minimum initial capital is 2,000 BAM (approx. 1,000 EUR).	Founded by the establishment act of 1 to 100 domestic/ foreign natural and/or legal entities; A shareholder in a limited company is not personally liable for any of the debts of the company, other than for the value of his investment in that company; Minimum initial capital is 2,000 BAM (approx. 1,000 EUR).
Limited Partnership (k.d.)	Company founded by the establishment contract of 2 or more domestic/foreign natural and/or legal entities; There must be at least 1 partner with full liability (including private property) and at least 1 partner with limited liability, the liability being limited by the value of his share in that company. There are no requirements for minimum or maximum initial capital.	Founded by the establishment act of 2 or more domestic/ foreign natural and/or legal entities; One person at least has unlimited liability for the company, and one person at least has liability to the amount of his investment in the company; There are no requirements for minimum or maximum initial capital.
Joint-Stock Company (d.d./a.d.)	Legal entities founded by the establishment contract of 1 or more domestic/foreign natural or legal shareholders with initial capital divided into shares; 1. Open joint-stock company is a legal entity (banks, insurance companies, or companies with minimum initial capital of 4 mil BAM (approx. 2 mil EUR) and 40 shareholders at least), whose shares may be publicly listed; 2. Closed joint-stock company is a legal entity whose shares are distributed among a limited number of shareholders. The minimum initial capital is 50,000 BAM (approx. 25,000 EUR).	Legal entities founded by the establishment contract of 1 or more domestic/foreign natural and/or legal entities with initial capital divided into a defined number of shares; 1. Open joint-stock company is a legal entity whose shares may be publicly traded, i.e. offers its shares for sale upon the open market and they are listed on the stock exchange and other public markets. Minimum initial capital is 50,000 BAM (approx. 25,000 EUR). 2. Closed joint-stock company is a legal entity whose shares are distributed among a limited number of shareholders. Minimum initial capital is 20,000 BAM (approx. 10,000 EUR).

STEPS FOR ESTABLISHING A BUSINESS IN B&H



DURATION AND COSTS OF ESTABLISHING A BUSINESS

The court procedure of establishing a business takes 5 days according to the law (due to technical difficulties, the complete procedure in practice may take up to 30-45 days).

The costs are as follows:

- ▶ Administrative costs: cca. 500 EUR
- ▶ Lawyer and notary costs: 500 - 1,000 EUR

FREE TRADE AGREEMENTS AND PREFERENTIAL EXPORT REGIMES

With the purpose of facilitating trade, creating preconditions for the increase in exchange of goods (and particularly export), the creation of a favorable environment for domestic and foreign investments, Bosnia and Herzegovina concluded certain number of bilateral/multilateral free trade agreements.

Bosnia and Herzegovina has signed the Central European Free Trade Agreement (CEFTA), in effect as of November 2007, with the following countries:

ALBANIA	SERBIA	MOLDOVA	MONTENEGRO
CROATIA	MACEDONIA	UNMIK/KOSOVO	

B&H has also signed a Free Trade Agreement with Turkey which provides additional free access to this consumer market with 70 million people.

The Interim Agreement on Trade and Trade-related Matters (IA) between EU and B&H entered into force on July 1, 2008, and will be in force until the Stabilisation and Association Agreement (SAA) start to implement. The IA effectively creates a free trade area, with progressive opening of the market of Bosnia and Herzegovina facilitating economic and social development.

Bosnia and Herzegovina has profited from EU autonomous trade measures since 2000. Following the entry into force of the Interim Agreement, access of products from Bosnia and Herzegovina to the EU expanded, and EU exports to the country have been granted trade preferences.

B&H has generalized system of preferences with:

USA	SWITZERLAND	NORWAY
JAPAN	NEW ZEALAND	RUSSIA
KAZAKHSTAN	BELARUS	

Furthermore, B&H has preferential export regime with Iran.

As a result, and due to the position that B&H has in the South Eastern and Central Europe, starting a business in Bosnia and Herzegovina means the opportunity of exporting to a market of app. 600 million people without paying any customs duties!

POLITICAL RISK INSURANCE

Bosnia and Herzegovina has 40 Agreements on Promotion and Protection of Investments with the following countries:

Albania	Austria	Belgium and Luxemburg	Belarus	Canada	China
Croatia	Czech Republic	Denmark	Egypt	Finland	Germany
Greece	Hungary	India	Iran	Italy	Jordan
Kuwait	Lithuania	Macedonia	Malaysia	Moldova	Netherlands
OPEC Fund	Pakistan	Portugal	Qatar	Romania	San Marino
Serbia	Slovakia	Slovenia	Spain	Switzerland	Sweden
Turkey	Ukraine	United Kingdom	USA OPIC		

Foreign investors concerned about risks of transfer restrictions, expropriation, war and civil disturbances and denial of justice, can be insured against these risks with the European Union Investment Guarantee Trust Fund for Bosnia and Herzegovina, administered by the Multilateral Investment Guarantee Agency (MIGA, member of the World Bank Group).

REPRESENTATIVE OFFICES OF FOREIGN LEGAL PERSONS IN B&H

Foreign legal person can establish a Representative Office in B&H for performing market research, informative and promotional activities, and for its own representation.

The Representative Office does not have the status of a legal entity, i.e. the Representative Office can not conclude agreements in name of its founder except representative offices of foreign air transportation companies which can sell transportation documents in accordance with bilateral agreements and international conventions signed by Bosnia and Herzegovina.

The Representative Office becomes operational after entering into the Register of Foreign Representative Offices kept by the Ministry of Foreign Trade and Economic Relation B&H

B&H Ministry of Foreign Trade and Economic Relations must adjudicate on the application for entry into the Registry within 10 days from the day of its filing.

INVESTMENT OPPORTUNITIES ATTRACTIVE SECTORS

TOURISM

AGRICULTURE AND FOOD PROCESSING INDUSTRY

ENERGY

WOOD

TRANSPORT

MINING AND METAL PROCESSING

AUTOMOTIVE

CONSTRUCTION INDUSTRY

The economy of Bosnia and Herzegovina offers strong human and resources base, long industrial tradition, as well as favorable business environment, which enable sustainable and profitable investment in particularly export oriented businesses.

B & H implemented important economic reforms and liberalization, broadly adjusted legal and regulatory framework to the European standards, preparing favorable business environment for further substantial investments. The main goal of Bosnia and Herzegovina is EU membership and it is a potential candidate country for EU accession. In this respect, it is worth mentioning that Bosnia and Herzegovina has signed the Stabilization and Association Agreement (SAA) with the EU, establishing formal contractual relations between the EU and Bosnia and Herzegovina. Huge natural recourses and beauties, an abundance of the spare production halls and facilities, industrial zones and attractive locations, highly motivated and competitive workforce are additional motivation and warranty for profitable business ventures. In spite of the impressive development achievements within past years, there is still a huge gap between real potentials and actual performances within various sectors. Capital shortage has become a main limitation for efficient and faster activation of the powerful recourses and other production factors; what open numerous opportunities to foreign investors. To materialize these huge potentials and recourses, including strong human base, supporting infrastructure, an abundance of production facilities, B & H economy seeks for increased capital investments, new technologies and access to the new markets, what could be met with strong strategic partners and large international companies, especially in following sectors:

- Tourism
- Agriculture and Food Processing Industry
- Energy
- Wood
- Mining and Metal Processing
- Automotive
- Construction Industry

Particularly large-scale development programs and huge investment projects have been prepared within energy, transportation and tourism sectors, requiring significant capital investments, which B & H alone cannot afford.

Involvement of strategic investors and applying various business and investment models, such as concession arrangements, various PPP models, financing from specialized institutions like World Bank, EBRD, etc, present a solution for achievement of these ambitious goals.

TOURISM SECTOR

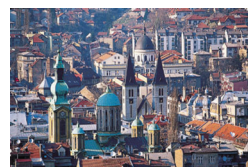
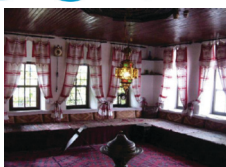
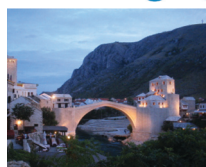
Tourism is a major contributor to B&H's economy, and to national and international recognition of B&H as a great place to visit, live, work, invest and stage events. The World Tourism Organization foresees that the B&H tourism market will be the 3rd annual fee increasing within the world market, with rate of 10.5 % from 1995 to 2020.

Tourism sector in B&H has an enormous potential for development, possessing all pre-conditions to play a significant role within the country economy. Consequently, tourism development in B&H was recognized as one of the top priorities of an overall national-economic development policy, and significant efforts have been put into creation of a favorable business and investment environment for potential investors.

B&H tourist destination, with its divers, pristine and unspoiled nature, rich historical and cultural heritage, closely match the new market travel trends, particularly satisfying the requirements of the travelers which are looking for new destinations and new forms of experience, as well as of those which hanker after adventure and authenticity.

The country has major tourist assets to offer for those people who seek different experiences, away from the crowd, whether they are lovers of skiing, rafting, hunting or patient bird-watching. Those in search of more cultural tourism will be able to relive centuries of history by visiting the very many vestiges and heritage dating back to Roman, even to prehistoric times.

However, most of existing resorts need investments for upgrading and modernization of existing facilities and programs, seeking for potential strategic partners to readjust their business models, management philosophy and marketing strategy.



WINTER TOURISM

Ski and winter tourism has a long tradition, primarily referring to the two main mountain resorts in proximity of Sarajevo - Bjelasnica & Igman and Jahorina, which successfully hosted the XIV winter Olympic Games in 1984.



There are also a number of other attractive ski destinations at diverse mountain areas, among which are most prominent Blidinje, Vlasica, Kupres and Kozara.

In order to capitalize huge unused potentials, all these destinations require investments in upgrading and modernization of infrastructure (particularly vertical transportation and ski slopes) and accompanying tourism facilities for development of diversified and all year-around tourism activities including adventurous, eco and sport tourism.

SPA TOURISM

Bosnia and Herzegovina is richly endowed with thermal and mineral springs which are the basis of spa tourism-becoming more popular each day. Due to the healing properties of the thermal and mineral waters, accompanied by mild climate, clean air and natural beauties, B&H spas such as: Fojnica, Banja Vrućica, Gradačac, Mlječanica, Aquaterm, Gata, Guber Iliđa, Kiseljak, Dvorovi Kulaši, Laktaši, Sanska Iliđa Slatina and Vilina Vlas, have been popular for centuries.

Spa resorts in Bosnia and Herzegovina are mostly located far from urban areas, within unspoiled scenery, where people will find the relaxation and tranquillity they seek. B&H spas offer a whole range of modern and high quality treatments under very moderate prices.

CULTURAL & RELIGIOUS TOURISM

Bosnia and Herzegovina is a country of long and rich history, which cultural heritage presents a complex mixture of Mediterranean, Byzantine, Ottoman and Central European influences. This diversity distinguishes B&H as a unique cultural, historical and religious attraction.



As a meeting point of different civilizations and cultures over centuries, most of the major religions Judaism, Roman Catholics, Christian Orthodox and Islam exist in harmony in B&H, offering a number of sacred places and a unique experience to domestic and international visitors.



B&H is home to the second largest Catholic pilgrimage site in the world in Međugorje, and the largest Islamic pilgrimage site in Europe at Prusac in central Bosnia, as well as to the unique Jewish pilgrimage site located in Stolac.

In addition, numerous cultural events with international reputation became part of our tradition, such as Sarajevo Film Festival, MESS – festival of modern theatre, Jazz Fest Sarajevo, etc.

All above mentioned favorable prerequisites are only symbolically exploited, opening an array of opportunities to the potential investors for investments in different tourism facilities.

NATIONAL PARKS, PARKS OF NATURE AND ECO TOURISM

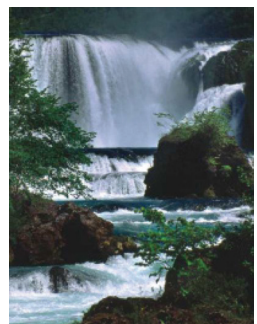
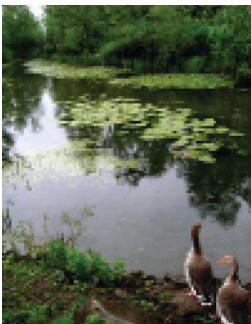
A number of national parks and parks of nature have already been established in Bosnia and Herzegovina. Moreover, National park Sutjeska was one of the first established in Europe. There is a program for formal proclamation of new areas in national parks.

All existing national parks are characterized by extreme natural beauty and diversity, preserved and rich wilderness, even primeval forests, small and big game (grouse, roe deer, lynx, wolf, bear).

The most famous are National park Sutjeska, National park Una, National park Kozara, Park of nature Hutovo Blato, Park of nature Bardača and Park of nature Blidinje.

These areas are extremely suitable for eco, geo and ethno tourism development, particularly in cooperation with local population, oriented to the organic food production.

However, these huge recourses are modestly capitalized, seeking for potential strategic partners and investors to introduce appropriate business philosophy and models, modernize existing or construct new facilities and improve the marketing strategy.



MARITIME TOURISM

With its 23 km of seaside and 240 sunny days every year, Bosnia and Herzegovina attracts more tourists from all over the world. Town Neum presents seaside door of B&H, and its accommodation capacities are approximately 5000 beds, out of which 2000 in three and four star hotels. With its capacities it cannot satisfy necessities of tourism season. Private accommodations are also available and pleasant pensions, restaurants and cottage houses offer unforgettable stay to the visitors.



However this resort needs investments for upgrading and modernization of existing facilities and diversification of tourism offer by construction of new facilities (like yachting marinas).

In addition, regions along south - eastern border of B&H, such as Ivanjica or Trebinje, which are approximately 10 km distant from Croatian Adriatic coast, became particularly interesting for construction of new tourist resorts and facilities due to agreeable climate and availability of free land, under competitive prices.



AGRICULTURE AND FOOD PROCESSING INDUSTRY

GENERAL INFORMATION

About half of the Bosnia and Herzegovina land area is agricultural land where 2.4 million hectares comprises approximately 1.2 million ha of arable land, 100.000 ha of orchards and vineyards, 500.000 ha of improved grazing land and 850.000 ha of mountain pastures.

Agriculture production in Bosnia and Herzegovina is dominated by crop production, with livestock production representing less than one third of the total output. Slight increase of this share in recent years is due to the increase in cow milk production. The economically most important sub-sector of BiH agriculture is vegetables. Of considerable importance are also fresh cow milk, maize and potatoes.

The climate is predominantly moderate continental, particularly characteristic for Central Bosnia and Herzegovina, while northern part of the country has mostly continental climate. South of the country has Sub-Mediterranean climate, characterized by long, summers and short, mild winters, with more than 200 sunny days and 1400 l/m2 of rainfall per year.

WHY INVEST IN THE B&H AGRICULTURE & FOOD PROCESSING INDUSTRY?

Bosnia and Herzegovina is richly endowed with natural resources and optimal climate conditions which create superb environment for agricultural production that is a great opportunity for investment with high-income based on the following main advantages:

- Abundance of fertile uncultivated and unpolluted land
- Clean water resources
- Favourable climate conditions
- Good availability of skilled low cost labour & long tradition in agriculture
- Developed education system and agronomic and veterinary support

The agriculture labor force is cheap particularly when compared to the EU. In addition, all categories of the experienced workforce (engineers, technicians, skilled workers) required in food processing industry are available under competitive prices.

The lower agricultural tariffs than all neighboring countries re-emphasize the need of B&H to increase the competitiveness of country's agriculture.

The soil quality and varying climatic conditions, accompanied with availability of the water, in Bosnia and Herzegovina offer wide potentials for agricultural production, both in terms of crop choice and cultivation systems, including:

FIELD CROPS

Northern parts of the country and river valleys are particularly suitable for field crops production, including cereals, industrial crops, vegetables, feed crops etc. as well as for intensive commercial cattle breeding, and dairy production.

LIVESTOCK & FORAGE PRODUCTION

A large part of the agricultural land in B & H , with lots of grassland, and climate conditions are favourable for cattle (sheep and goat) intensive and extensive breeding , milk, dairy and meat production, as well as for cultivation of silage etc.

VEGETABLE-GROWING

The soil and climate conditions are suitable for all types of vegetable production in all regions of Bosnia and Herzegovina, along the rivers, in flat, hilly and hilly-mountainous regions, even in mountain grasslands, where could be produced a high quality potatoes and cabbage, as well as rye, barley, oat, etc.

MEDICINAL AND AROMATIC HERBS

The biodiversity of medicinal and aromatic plants in the area of Bosnia and Herzegovina is very rich thanks to the favourable climate, geographic and soil conditions.

FRUIT & VINE-GROWING

The most convenient fruit-growing regions are the hilly and hilly-mountainous regions and the river valleys which are abundant in sunny sites with the right type of well drained soil, as well as the Mediterranean region (Southern B&H). Currently, there are an estimated 14 million trees producing plums, pears, apples, berry and other fruit for export and fruit-juice production. The B&H grape and wine production takes place in in the Mostar , Čitluk, Stolac, Ljubuški, Trebinje and Capljina municipalities area.

FISH FARMING

Abundance of the clear, unpolluted rivers and streams that cross the country presents huge potential for both family owned and industrial size fish farming production, especially trout and carp rising.

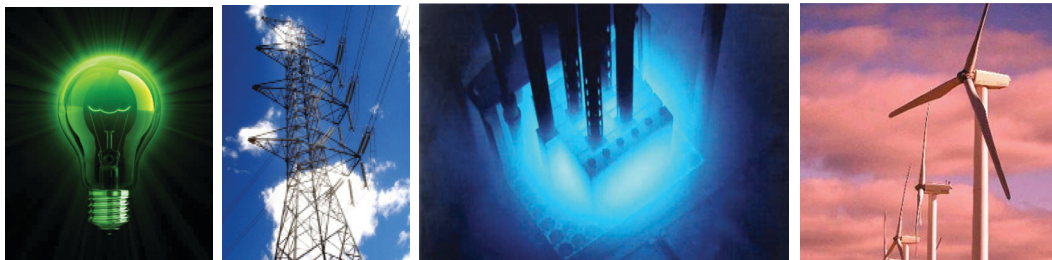
ORGANIC FOOD PRODUCTION

The development of the B&H organic sector started in 1996 when the first B&H organization "ORGANSKA KONTROLA" became a member of IFOAM (International Organization of Organic Agriculture Movements). The scientific study made by Sarajevo Economic Institute and Washington Urban Institute, identified enormous potentials of the organic food sector for rural development generation in BiH.

FOOD PROCESSING INDUSTRY

Currently B&H food processing industry encompasses the companies engaged in manufacturing or processing of foods and beverages for human consumption, including meat, milk, fruit, vegetable, sugar, oil and tobacco, as well as prepared feeds for animals and fowls.

ENERGY SECTOR



GENERAL INFORMATION

Bosnia and Herzegovina Energy Sector is one of the most powerful, with long tradition and huge potentials and opportunities for further development and investment. This sector is subject to the deep reforms, restructuring and privatization processes, with intentions to become integral part of European energy market and community.

Power generation in Bosnia and Herzegovina is exclusively related to domestic energy resources - coal and hydropower. Total installed capacity of generation facilities in BiH is 4000 MW, out of which 57% in the hydropower plants and 43% in thermal power plants. Apart from major hydropower plants and thermal power plants, the existing generation capacities in Bosnia and Herzegovina include also small hydropower and industrial plants, which are mostly connected to the distribution grid.

WHY INVEST IN THE B&H ENERGY SECTOR?

B&H is endeavoured with various indigenous energy recourses, including:

- Considerable reserves of brown coal and lignite of 6 billion tons
- Huge hydro potential of over 4000 MW
- Significant wind energy potentials estimated at 1500 MW
- Raw material resources for the bio-mass energy are extremely favorable, including approximately
- 1.5 million m³ of forest/wood industry residues
- Geo-thermal and solar as well as bio-mass energy are only symbolically in use
- Preliminary research surveys of oil and gas, had indicated the presence of promising deposits on a number of sites in B&H (reserves are estimated at about 50 million tons of oil)

INVESTMENT PLAN

Strategic development programs of the Entities' Ministries of Energy, Mining and Industry, foreseen a significant investments in new power system facilities based on coal, hydro and renewable energy sources and expansion of existing power generation capacities , in order to meet growing electricity supply deficit within regional and larger European markets.

LARGE THERMAL POWER GENERATION PROJECTS

There are a total of seven new coal-fired thermal power generation projects: Kongora-coalmine/power plant; Bugojno – coalmine / power plant; Stanari – power plant ; Ugljevik 2 - coalmine / power plant ; Gacko 2 coalmine / power plant ;Tuzla – G7 and Kakanj - G8. The potential electricity production capacity will be approximately 3450 MW, including both, rehabilitation and expansion of the existing facilities and construction of entirely new coal mine / power generation plant complexes.

LARGE AND SMALL HYDROPOWER PROJECTS

Development programs identified fifteen potential new large and small hydropower projects, and four rehabilitation and expansion projects, with potential electricity production capacity of approximately over 2000 MW in total.

MINI HYDROPOWER PROJECTS (CAPACITY OF 5 MW OR LESS)

In the river basins of B & H. there were identified over 400 potential micro locations for construction of the mini hydro power plants, enabling cumulative increase of the electricity production capacity of approximately 1000 MW.

WIND ENERGY POTENTIALS

Systematic wind measurements on larger number of locations on the area of Herzegovina in the period of 2004-2005 shown wind speed in the range of 7 to 9 m/s.

The application of extrapolation models and the use of long-term scaled data sets on these locations result in expected average annual wind speed in the range of 6 to 8 m/s 50m a.g.l.

Currently there are many macro and micro locations for wind power plant construction that are evaluated as advantageous for wind power plant construction.

WOOD SECTOR



Bosnia and Herzegovina has a long tradition in forestry and wood processing, going back to the second half of the 19th century. The abundance of both hard and softwood, as well as the competitive and skilled workforce, make this sector attractive for investment, particularly in export-oriented production programs.

Of all the natural resources of Bosnia and Herzegovina, its timber is best known; 53% of the country is covered in forests that can serve both the furniture and the construction industry. These forests have the potential to provide nearly 7 million m³ round-wood per year on a sustainable basis. Beech, oak, ash, pine and fir as well as more specialised woods such as walnut, apple and cherry, are exported as raw material, half fabricates and finished products.

Over 60% of B & H wood sector production is exported, where the finished furniture is becoming more and more important export product. Currently, the largest markets for these producers are Western Europe, USA and Middle East, but the potential to export to other countries is enormous. Nevertheless, the wood processing sector is characterized by a large gap between its current performances and its real potential.

Targeted investments have the potential to bridge the mentioned gap and improve the substantial value-added outcome, starting new companies or modernizing existing ones, with some capital investments or introduction of the new technologies and equipment.

Forest resources – raw materials

B & H forestry provides reliable resource base (volume, species, quality) related to the supply of various high quality raw materials (beech, oak, ash, pine and fir, as well as walnut, apple, cherry etc.), to the wood processing industry, on long term basis.

Around 53% of B & H territory is covered by forests, where deciduous trees (hardwood) are predominant (over 60 %, mainly beech and oak). „Bosnian beech” is particularly famous worldwide, due to its high quality. The B & H forests (80.7% state owned) have the sustainable potential to provide nearly 7 million m³ round-wood per year. Bosnia and Herzegovina has favorable demographics and consistent investment in education provide sustainable supply of flexible, adaptable, innovative, foreign language spoken and productive young workforce. There is well-developed university education system, providing sufficient qualifications for entry to professions with high skilled requirements. In addition there is abundance of labor of all categories, under competitive prices, being app. 20% of West Europe and USA wages.

Market potentials

The most attractive products in the view of market potential for B & H would be: pulp and paper mills, edge glued panels, veneer / hardwood plywood, parquet, furniture (preferably solid wood), medium density fiberboard, particleboard, joinery, biomass (briquette, pellets, heat generation).

Most promising options

The most promising options for potential investors in B & H forestry / wood industry lie in processing of sawn wood to edge glued panels (EGP), veneer, parquet and furniture, especially as there are small and medium companies which may be suitable for joint ventures. In addition, there is potential for investment in one MDF and one particleboard mill of global market competitive size.

Wood sector offers an array of opportunities by:

- Introducing better technologies and machinery
- Modernizing product design
- Long tradition of manufacturing and forestry
- High quality raw material - relative ease of access
- High level education / professional forestry and wood processing experts at all levels
- Skilled labour force at reasonable cost
- Attractive and competitive costs
- Geographical location
- Growing international demand for final and semi-final (especially hard-wood) products

TRANSPORT SECTOR

Transport sector in Bosnia and Herzegovina became one of the most active and vibrant sectors within B & H economy, due to the ambitious physical and institutional development programs – covering roads, railways, aviation, inland waterways and urban transport - adopted by B & H governments, and supported by various international, predominantly financial institutions (World Bank, EBRD, etc.).



Main comparative advantage of Bosnia and Herzegovina is a favorable geographical position, which is the main basis for the future development of the whole transport sector. Recognizing efficiency and quality of transportation system and infrastructure as one of the key factors for faster transitional changes, regional and international integrations of B & H, as well as for overall economical development, adopted Strategy, Policy and Sector development scenario by 2020, encompassed considerable investments in transportation infrastructure, respecting the principles of liberalization and privatization.

Numerous infrastructure projects are already underway, which aims are to improve the performance of Customs and removing impediments to international road transport, including greatly increasing the efficiency of road border crossing points, implementation of the Road Management and Safety Project, with the objective to improve traffic flows and reduce accident rates on the country's road network through reconstruction and modernization of priority roads, as well as construction of new roads and motorways etc.

All these development programs aim to increase the density of high quality transportation facilities within the country, and to upgrade existing infrastructure, which encompasses at present, as follows:

ROADS

The road network of Bosnia and Herzegovina consists of approximately 22,600 km, with 3,788 km of main roads, 4,842 km of regional roads and 14,000 km of local roads.

European roads (E-roads) length amounts to 995 km, which do not provide sufficiently fast traffic operations. Therefore large scale development programs comprise reconstruction of approximately 850 km of main roads, as well as construction of the new motorways, using funds of international financial institutions, B & H funds, as well as other financing forms, such as concessions, Build-Operate-Transfer, PPP and other financial arrangements.

Main projects identified by road development program are:

- Motorway at Corridor Vc,
- Motorway Gradiška - Banjaluka - Mrkonjić Grad - Šipovo – Kupres,
- Motorway Prijedor – Banja Luka - Doboј - Šamac - Bijeljina (Serbian border),
- Motorway Tuzla – Orašje (Croatian border),
- Highway D. Vakuf – Lašva,
- Highway B&Hać – Izačić (Croatian border),
- Highway modernization / reconstruction Sarajevo – Tuzla, etc.

CORRIDOR Vc

Corridor Vc, as a part of Pan-European Corridor, connected to TEN Network, was recognized as main regional project, going from Budapest (Hungary), via Osijek (Croatia), Sarajevo (Bosnia and Herzegovina) to the Port Ploce (Croatia).

The transport Corridor Vc through Bosnia and Herzegovina includes:

- Motorway - E-road E-73 Samac- Sarajevo - Mostar - Croatian border, with exit to the Adriatic Sea (Port Ploce),
- The railway Samac - Sarajevo - Mostar - Croatian border, with exit to the Adriatic Sea (Port Ploce),
- Sarajevo and Mostar Airports,
- Waterways and quays on the Sava, Bosnia and Neretva Rivers,

Length of the Corridor Vc Motorway, from the North (Sava River to the South Croatian border) divided by sections is approximately 330 km.

Completion of the motorway at Corridor Vc will initiate new and encourage total economic activities, especially inside the central gravitation area, but also in Bosnia and Herzegovina as a whole, accelerating the economic growth and enhancing development of the other sectors from industry, trade to tourism.

RAILWAYS

The B & H railway infrastructure consists of 1,042 km of track, most of which is electrified. Main railway network encompasses the north-south route (Pan European Corridor V) and the east-west route (Parallel to Pan European Corridor X).

The proposed project comprises priority rehabilitation works of infrastructure, covering track, signaling and telecommunications, on the country's main railway network on the north-south route (Pan European Corridor V) and the east-west route (Parallel to Pan European Corridor X), which do not provide sufficiently fast traffic operations.

Therefore, considerable modernization and reconstruction project of complete B & H railway system have been foreseen by development programs, including:

- modernization / reconstruction of track for speed 160 km/h, with replacement of superstructure and substructure,
- modernization of signalization, with introduction of remote control,
- modernization of overhead contact line to new designed solution,
- modernization and increasing of the fleet sufficient for multiple traffic increase,
- reform and development of the overall subsector in compliance with new Law on Railways.

AVIATION

B & H has four main airports, compliant to the ICAO standards, all of which serve international air traffic, where Sarajevo serves approximately 90% of the total traffic.

All airports has development programs related to the modernization and expansion of existing capacities, including upgrading of the navigation equipment and other facilities, such as terminal buildings, runways etc.

INLAND WATERWAY SUBSECTOR

The Sava River, with two main ports Šamac and Brcko, being a tributary of the Danube (part of TEN Corridor VII), is the only navigable waterway, and runs for 333 km along the border with Croatia and the border with Serbia.

Both ports have the ambitious development programs related to the modernization and expansion of the existing facilities and capacities, with intention to become important international industrial zones.

INVESTMENT OPPORTUNITIES

Completion of all before identified huge infrastructural projects requires significant capital investments, which B & H alone can not afford. Therefore, attracting investors and reliable strategic partners is one of the most important preconditions for the successful development of the B & H transportation sector, applying various business and investment models, such as:

- involvement of strategic investors on Build-Operate-Transfer concession basis,
- financing from specialized institutions (World Bank, European Investment Bank),
- engagement of B & H investment funds,
- PPP arrangements,
- privatization, etc.

MINING AND METAL PROCESSING SECTOR

Mining sector that includes exploration, exploitation, metal processing and processing of the other indigenous mineral resources, has a long tradition in Bosnia and Herzegovina, as well as huge potentials. Bosnia and Herzegovina is endeavored with significant and diverse indigenous natural energy resources that are still untouched or only partly exploited.



Most important motives for foreign investors to invest in mining and metal processing sectors in B&H are:

- natural recourses / low cost sourcing of input / low cost of production,
- qualified, trained, motivated and at a price competitive labor force,
- available infrastructure and inputs,
- good export opportunities including geographic position and incentives,
- sector supported universities, research and development institutions, design and engineering companies.

MINING

Bosnia and Herzegovina is abundant in various natural mineral resources, particularly in large deposits of coal, bauxite, iron and limestone.

The main energy resource of B&H is coal (brown coal and lignite), with estimated reserves of 6 billion tons. Coal is one of the most important energy resources in Bosnia and Herzegovina. Major deposits of lignite and brown coal are sited all around B&H. B&H has an estimated 653 million tons of iron ore deposits concentrated around Ljubija and Jablanica. Total bauxite deposits are estimated at 120 million tons, with over 30 million tons of accessible reserves which are scattered throughout B&H and particularly around Vlasenica and Jajce as well as in the regions of Mostar, Čitluk, Posušje, Stolac, Tomislavgrad, Žitomislići, and Bosanska Krupa.

Zinc and lead reserves are estimated at 56 million tons and located around Olovo, Vareš and Srebrenica. Reserves of magnetite are estimated at approximately 2 million tons that are predominantly concentrated around Kladanj (with 20% of magnetite content). Reserves estimated at approximately 2.5 million tons of manganese are concentrated in the area of Bužim and Konjic, and around 200.000 tons of chromium in Vareš area. Reserves of silver, arsenic, and barite are also detected in Olovo, Vareš, Kladanj, Srebrenica and other mines.

B&H has significant deposits of non-metal and other industrial minerals, such as salt, limestone, asbestos, pyrophyllite, kaolin, gypsums, clays, (china clay), dolomite, silica sand, stones, gravel (aggregates), sand, and other minerals.

In order to benefit from those huge potentials mining sector requires substantial reforms and restructuring as well as modernization of all exploration and exploitation segments. It could be achieved through the introduction of new technologies. It requires significant investments and opening an array of investment opportunities for both strategic partners and reliable investors.

METAL PROCESSING SECTOR

B&H metal processing has traditionally been one of the strongest sectors by offering a strong human and resources base as well as a long tradition enabling sustainable development of various value-added businesses, export oriented in particular.



First industrial capacities of the metal sector developed from the craft workshop for maintenance of the coal mine equipment and salt.

The metal processing industry in B&H is fairly large, covering ferrous and non ferrous metal processing, primarily iron and steel, aluminum, lead, zinc and copper. B&H metal sector has permanent and robust production growth rate of over 10% within past years, being strongest exporter in B&H economy. Metal industry is one of the most important industrial sectors of the whole region and according to the economic strategy set by the B&H government; the metal industry is a strategic industry with comparative advantages such as human capacities, raw materials, metal production capacities, various unused fabrics).

It is important to emphasize that the global economic crisis specially affected metal sector since it is export oriented (around 40%). Although the environment for the sector progress is not promising, former capacities and qualified labor force as well as appropriate export strategy of the sector succeeded to keep positive results and continue to make new opportunities.

Investment Opportunities

Strategic location, rich in mineral resources, high quality and reliable suppliers, abundance of production facilities and industrial zones, good educational base, innovations, infrastructure and energy availability are the focal points of promises to potential investors, export oriented sector, a lot of unused sector capacities that enforced development potentials with no high investments.

Due to the fact that medium and small enterprises are prevailing in metal processing sector, this industry is seeking integrator companies which could leverage faster development, introduction of new technologies, and promote higher level of specialization within metal processing sector.

Metal processing sector seeks new opportunities through the improvement of new technologies and access to new markets with strategic and reliable partners.

AUTOMOTIVE INDUSTRY

Bosnia and Herzegovina has a long tradition and widespread experience in the automotive industry. For decades, major brands have relied on the skilled workforce of B&H to assemble cars for Western markets. First steps in this industry were made in 1950s with production of different parts and components for passenger cars and heavy weight vehicles. At the beginning of the 1970s, Volkswagen and UNIS-Holding merged into a concern, and the production of the first vehicles in B&H began. At the same time, Famos Holding, one of the most important companies involved in the development of automotive industry in B&H, started the production of the first diesel engines licensed under Mercedes Benz as well as gears licensed under German ZF. Before 1992, Volkswagen produced passenger and commercial vehicles at a plant near Sarajevo, while Kosmos - Banja Luka and Soko - Mostar produced buses. As a consequence of existing final vehicle assembly and automotive components production, the powerful and diversified supply chain and supporting infrastructure had been established including education system, research & development institutions and specialized and competent labour force with metalworking, automotive and electrical engineering skills.



The automotive industry of Bosnia and Herzegovina was disrupted and damaged by the war, but primary metal production, metal processing, toolmaking, plastic processing, mechanical and electrical engineering, automotive textile products and vehicle assembly still exist and gradually the original cohesion of the automotive industry in B&H is on the way to its rebuild.

Within the past ten years, this industry has experienced dynamic development, and has become strongly export-oriented, exporting in average 90 % of their production in 30 countries all around world.

B&H companies in automotive industry are producers of a wide spectrum of parts and components, such as: engines and gears and their parts, high-quality metal precision parts, drive shafts, brake parts and systems, clutches, steering parts and systems, pumps, filters, automotive electric parts (signals, relays, electronic switches), textile and leather products, plastic injection parts, aluminium wheels, car batteries, and

various small parts such as springs, screws, hoses, and components of metal, rubber or plastic.

Majority of the companies are already fully privatized by local or foreign companies. Several international automotive suppliers have taken a share in BiH companies or have taken over companies completely. The corresponding investments allowed particularly those companies a high and dynamic growth. Examples of this trend are the companies TMD Ai, (subsidiary of the Slovenian Cimos-Group), which in the area of metal processing produces high-quality precision parts, or the filter manufacturer Unico Filter, which has been taken over by the German market leader Mann-Hummel. Biggest exporter and second-largest company in the country is the Prevent as a subsidiary of a Slovenian group. Prevent has several production sites in B&H for automotive products as well as share in VW Sarajevo and FAD Jelah companies. Other companies which received significant amount of FDI are: Jajce Alloy Wheels / Croatia and Germany, Bekto Precisa/ Austria, ADK/Slovenia, Skania BH / Sweden, Unis Valjici / Slovakia.

Historically and today Auto components sector in Bosnia and Herzegovina produces for the leading automotive industry brand names (Volkswagen, Mercedes, MAN). Many BH companies forming this sub-sector are producers of a wide range of components, while Volkswagen Sarajevo used to finally assemble various types of VW, Skoda and Audi passengers' cars in SKD system. Prevent B&H, as a subsidiary of a Slovenian group, supplies the seat covers for the VW-models Golf, Polo and Lupo and French manufacturers Renault and Peugeot. There are, also, companies which had indirect contacts (as subcontractors) with Toyota and Mazda (Jajce Alloy Wheels, Bekto Precisa Gorazde).

Investment opportunities

Strategic location, high quality and reliable suppliers, good educational base, innovations, infrastructure and energy availability are the focal points of promises to potential investors. With all recent strategic movements and industry renewal in B&H, auto components supply chain has a good prospective to develop further and serve the needs of the wider region. To materialize these potentials, automotive sector seeks for increased capital equipment investments, new technologies and access to the new markets, what can be met with strong strategic partners or large integrator companies which intends to move their production, or assembling activities at lower cost regions.

CONSTRUCTION INDUSTRY

The construction sector in Bosnia and Herzegovina has a long history and great potentials, especially when it comes to human resources. Most building materials are readily available in B&H. Virtually all of the components needed to repair existing structures and to build new ones, ranging from motorways and airports to commercial premises and housing that are produced by the B&H businesses. This sector of the industry also offers considerable scope for export development.

First priority was given to the repair and renovation of existing property and infrastructure. As a result, a substantial latent demand has developed among industrialists and general population for new buildings. Currently, this sector amounts to 5,3% of B&H exports in the total realized sale of the B&H products at the foreign market. Important note to emphasise for this sector that in 2011 it achieved the strongest nominal growth comparing to other sectors (4,8%).

The building and civil engineering sector businesses are experienced in a wide range of projects. This sector was involved within international projects and has built a reputation for quality and reliability. Construction companies supplying key markets in the Middle East, North Africa, Russia and Asia and most interesting market for B&H companies at the moment are Albania then Germany and Austria (European countries) - especially Albania where 400 mini hydro centrals are now under construction, highways, buildings and other infrastructural objects where bh construction workers have found their chance.

According to the Law on Foreign Direct Investment Policy in B&H there is no any restrictions and limitations regarding buying or possessing the construction land and buildings by the foreign investor who is allowed to be a 100% owner of the land or building and has the same rights such as a local owner

Creation of the Exit Strategy is in progress and its processing is made by the plan and program of the European – Exit Council of the Foreign Trade Chamber of B&H and in cooperation with the entity chambers of RS and FB&H. That strategy is going to cover complete construction sector as a separated sector, not within other sectors. Finalization of the Strategy is planned by the end of 2013.

According to the construction analyses document - promising project for construction sector is so called SARM-a project (Sustainable Aggregates Resources Management) – since up to now construction waste was not treated properly and according to the plan 70% of the wasted construction materials are going to be recycled by the end of 2020. Beside that certification process needs to be done properly since domestic factories do not have appropriate licences according to ISO standards and attest to export finished construction products abroad. Those two projects promise a lot for construction sector at the forthcoming period.

People responsible for construction sector in the country are hardly trying to get state support by establishing a unique body (either ministry or directorate) at bh level to have harmonise and equal rules and regulative for all construction companies ready to follow high European standards and norms.

First step undertaken in 2011 is establishing of bh construction consortium consisted of five respectable companies from B&H at the beginning with seven more companies subsequently connected.

Local construction companies interested in partnership with foreign companies that already have approved as reliable partners because of the necessary investments and new markets.

Investment Opportunities:

Natural resources, long industrial tradition in the country and abroad, comparative advantages comparing to other transitional countries in, wide range of products, export oriented sector thanks to available resources that enable production of the finished construction products, closeness of the EU market, road infrastructure, strategic location, competitive labour force, are the focal points of promises to potential investors.

FIPA SUPPORT

Are you interested in investing in Bosnia and Herzegovina?

FIPA will be pleased to assist you, our services are confidential and free of charge!

Established in 1998, FIPA - Foreign Investment Promotion Agency of Bosnia and Herzegovina is the main governmental institution supporting foreign direct investment in B&H.

FIPA will help you seize business opportunities in Bosnia and Herzegovina by:

PROVIDING CURRENT DATA AND INFORMATION ON THE BUSINESS CLIMATE AND INVESTMENT ENVIRONMENT:

- ▶ Advice on the legal framework concerning Foreign Direct Investment (FDI) in B&H
- ▶ Macroeconomic data / indicators
- ▶ Investment incentives

PRESENTING INVESTMENT OPPORTUNITIES IN B&H:

- ▶ Available investment projects
- ▶ Companies in the process of privatization
- ▶ B&H companies seeking partners

PROVIDING RELIABLE ASSISTANCE, INCLUDING:

- ▶ Effective networking with the public and private sectors
- ▶ Links with governmental and non-governmental institutions

We provide client orientated research & services helping you to make your business in Bosnia and Herzegovina a "success story"!

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