



Doing Business and Investing in Serbia

2006/2007



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2006/2007

PRICEWATERHOUSECOOPERS 

in cooperation with

Bojović & Dašić
Attorneys at Law

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| a.d | Joint-Stock Company (official abbreviation used in Serbian) |
| AMC | Anti-Monopoly Commission |
| Belex | Belgrade Stock Exchange Market |
| BOT | Build–Operate–Transfer |
| BRA | Federal Agency for Deposit Insurance and Bank Rehabilitation, Bankruptcy and Liquidation |
| BRA | Agency for Business Entities Registration |
| CA | Collective Agreements |
| CEI | Central European Initiatives |
| CRS | Central Registry of Securities |
| CSD | Convertible Serbian Dinar |
| DIN | Nis Tobacco Company |
| DIV | Vranje Tobacco Company |
| d.o.o | Limited Liability Company (official abbreviation used in Serbian) |
| DSS | Democratic Party of Serbia |
| EBRD | European Bank for Reconstruction and Development |
| EFTA | The European Free Trade Association |
| EPS | Electric Power Industry of Serbia |
| EUR | Euro |
| FDI | Foreign Direct Investment |
| FRY | Federal Republic of Yugoslavia (former name of SCG) |
| GATT | General Agreement on Tariffs and Trade |
| GDP | Gross Domestic Product |
| IAS | International Accounting Standards |
| ICAO | International Civil Aviation Organisation |
| IFC | International Finance Corporation |
| IFRS | International Financial Reporting Standards |
| ILO | International Labour Organisation |
| IMF | International Monetary Fund |
| IMO | International Maritime Organisation |
| IOM | International Organisation for Migrations |
| IP | Intellectual Property |
| JSC | Joint Stock Company |
| Kâ | quality |
| k.d | Limited Partnerships (official abbreviation used in Serbian) |
| Kk | quantity |
| L | Licence |
| LB | liberal regime of export |
| LFI | Law on Foreign Investment |
| LLC | Limited Liability Company |
| LRCL | Law on Resolving Conflict of Laws |
| MIGA | Multilateral Investment Guarantee Agency |
| NBS | National Bank of Serbia |
| NFA | New Financial Arrangement |
| NIS | Petroleum Industry of Serbia |
| NS | New Serbia |
| o.d | General Partnerships (official abbreviation used in Serbian) |
| OTE | Greek Telecommunication Company |
| Popn | Population |
| RTS | Radio and Television of Serbia |
| RUJP | Public Revenue Agency of Serbia |
| SCG | Serbia and Montenegro |
| SDP | Social Democratic Party |
| SEC | Securities Exchange Commission |
| SECI | South East Europe Cooperation Initiative |
| SPO | Serbian Renewal Movement |
| SPS | Socialist party of Serbia |
| SRS | Serbian Radical Party |
| SZS | Federal Statistical Office |
| TDFA | Trade and Deposit Facility Agreement |
| TOB | Take Over Bid |
| TRIPS | The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights |
| UNESCO | United Nations Educational, Scientific and Cultural Organisation |
| UNCITRAL | United Nations Commission on International Trade Law |
| UNIDO | United Nations Industrial Development Organisation |
| USD | United States Dollar |
| VAT | Value Added Tax |
| WHO | World Health Organisation |
| WMO | World Meteorological Organisation |
| WTO | World Trade Organisation |
| ZOP | National Bank of Yugoslavia-Clearing and Settlements Bureau |



Foreword

This guide is intended to assist PricewaterhouseCoopers' clients and other parties interested in doing business in Serbia. It does not exhaustively cover the subject, but is intended as a synopsis of some of the important initial issues of concern to those planning to do business in Serbia. Prior to embarking on a program of investment in Serbia or when considering such investment it is advisable to refer to the laws, regulations and decisions of the country directly and to obtain appropriate professional accounting and legal advice.

The information contained in this guide refers to the laws and practices in force in Serbia as at September 2006 unless otherwise indicated. Given the rapidity with which change is taking place, some information may become out-dated by the time of publication. For the most up-to-date information, please contact PricewaterhouseCoopers Belgrade.

It is important to bear in mind that the legal framework set out in this guide is fully applicable in Serbia excluding the provinces of Kosovo and Metohija, which are under the jurisdiction of the United Nations Mission (UNMIK).

This year's edition of *Doing Business and Investing* in Serbia was prepared in cooperation with Bojovic & Dasic Attorneys at Law.

Disclaimer

The above information is intended to provide general guidance only. It should not be used as a substitute for professional advice or as the basis for decisions or actions without prior consultation with your advisors. While every care has been taken in the preparation of the publication, no liability is accepted for any statements, opinion, error or omission.



A Profile of Serbia

Geography and Statistics

| | |
|--|---|
| Official Name | The Republic of Serbia |
| Area | 88,361 km ² |
| Population | 7,498,001 (excluding Kosovo and Metohija) |
| Location | South East Europe, central part of the Balkan Peninsula |
| Borders | The length of the Serbian border is 2,397km. On Serbia's eastern border lies Bulgaria; in the northeast, Romania; in the north, Hungary; in the west, Croatia, and Bosnia and Herzegovina; in the south west, Montenegro; and in the south, Albania and Macedonia. |
| Strategic Location | Serbia is situated at the intersection of Pan European Corridors Nr. 10 and Nr. 7 linking Europe and Asia. The river Danube runs through Serbia (588 km). |
| Official Language | Serbian (members of ethnic minorities are entitled to use their own language) |
| Main Religion | Christian Orthodox (religion is practiced freely and many different religious institutions exist in Serbia) |
| Capital | Belgrade (population around 1.6 million) |
| Other Major Cities | Novi Sad (popn. 300,000), Nis (popn. 250,000), Kragujevac (popn. 175,000), Pristina (Kosovo and Metohija) |
| Currency | Dinar (CSD), divided into 100 paras. On 28 August 2006 the exchange rates were 1 EUR = 83.25 CSD and 1 USD = 65.02 CSD, according to the National Bank of Serbia (NBS). |
| Time Zone | Central European time zone (GMT + 01:00) |
| Climate | Temperate continental, with gradual transition between the four seasons of the year, warm summers and snowy winters. The average annual temperature is around 12 °C. The temperatures in January and June average 0 °C and 22-23 °C respectively. The average annual precipitation ranges from 660 mm to 800 mm in the plains to between 800 mm and 1,200 mm in the mountains |
| Total length of railway network | 3,619 km |
| Total length of roads | 42,692 km (asphalt) and 24,860 km (concrete) |
| Agricultural land | 5,718,599 ha, of which: |
| Sown with: | <ul style="list-style-type: none"> ● 4,674,622 ha Arable land, ● 1,006,473 ha Pastures, ● 37,504 ha Fish-ponds. |

| | |
|-------------------|---|
| Sown with: | <ul style="list-style-type: none"> ● 2,453,374 ha Cereals ● 494,598 ha Reed-marshes and ponds forage ● 348,641 ha Industrial herbs ● 300,484 ha Vegetables ● 256,887 ha Orchards ● 85,763 ha Vineyards ● 2,164 ha Nursery-gardens ● 64,722 ha Not cultivated ● 666,702 ha Meadows ● 86,866 ha Forests |
|-------------------|---|

Internet domain yu (new domain will soon be RS)

International dialling code +381

Resources

Natural Resources

Minerals are the primary natural resources of the Republic of Serbia. Its deposits of antimony and lead are among the most significant in Europe. Deposits of coal, oil, gas, zinc, gold, chrome, and copper are plentiful.

Transport and Communications

Serbia's infrastructure is in need of repair and modernisation, as investment over recent years has been almost non-existent.

Rail: The country has a railway network of approximately 4,000 km. Some sections of track are in very poor condition and cannot support movement of rolling stock at speeds over 20 Km/h.

Roads: Serbia has more than 50,000 km of roads, of which approximately 30,000 km are in good condition. Two important European highway corridors pass through the country, including Corridor 10 leading from Salzburg through Belgrade and Nis, branching off to Athens and Sofia. Another important corridor links the capital with Budapest.

Waterways: The Danube, Tisa, Sava and Velika Morava make a well-developed network of internal navigable rivers and port capacities in Serbia. The Danube is connected to the North and Black Seas and represents the most secure navigable route. The main ports on the Danube are Belgrade, Novi Sad and Smederevo.

Air: The main gateway for international air transport is Belgrade international airport Nikola Tesla. Other airports are in Nis, Vrsac, Kraljevo, Bor and Sombor. The airport in Nis has been reconstructed. The national air transport company is JAT Airways.

Telecommunications: A fixed-line telephone network covers the entire territory of Serbia. However, the network is in great need of upgrade and modernisation. Direct international dialling is possible. Telekom Srbija, the national company for fixed-line operating and one of two mobile operators in Serbia, is twenty percent owned by Greek OTE (Greek telecommunication company). There are two mobile phone operators with more than four million subscribers. One of the mobile phone operators (Mobi 63 – formerly Mobtel) was sold to the Norwegian Telenor for EUR 1.5 billion in August 2006.

Broadcasting: Television is the most widely used advertising medium in Serbia. The national television network has two channels (Radio Televizija Srbije – RTS 1,2) and there are five nationwide private television stations. The situation is similar with radio FM networks, four owned by RTS and number of private stations.

Press: Serbia has more than 2,500 newspapers and periodicals. Some international English and French language newspapers and periodicals are available. The state owns the Tanjug news agency and there are five private news agencies.

History

1990 – 1999 - years of deep crises and wars

The country has a long and turbulent history as the meeting point of western and eastern empires. In 1990, the history of the Federal Republic of Yugoslavia began, with the surrender of the League of Communists' power and the first free multi-party elections since World War II.

The Republics of Croatia, Slovenia, Macedonia, and Bosnia and Herzegovina declared independence in 1991 and received recognition from the European Community the following year. War soon broke out and the export-dependent economy began to unravel, especially after the imposition of UN economic sanctions on the Federation in May 1992 (the sanctions were enforced by a naval blockade in the Adriatic Sea and the Danube).

The Federal Republic of Yugoslavia (FRY) also failed to inherit former Yugoslavia's membership of various economic organisations, including the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT). As a result of all these factors, the country experienced hyperinflation, a high rate of unemployment, and a deep and prolonged recession. In this period, Serbia was led by Slobodan Milosevic and his Socialist Party of Serbia (SPS).

In 1998, violence flared in the autonomous province of Kosovo and Metohija in Serbia. The Kosovo Liberation Army, supported by the majority ethnic Albanians, came out in open rebellion against Serbian rule. International pressure grew on President Milosevic amid the escalating violence.

NATO launched air strikes in Kosovo and Serbia in March 1999. Serbian forces were driven out of the province and the UN took over its administration. A final settlement has still to be reached. After the end of NATO air strikes on Yugoslavia in the spring of 1999, the economic situation was at its worst.

2000 – 2006 - setting up reforms

However, everything started to change with the 24 September 2000 elections, the subsequent 5 October Revolution defeating Slobodan Milosevic's regime, and beginning the transition to a democratic government. The new government of Serbia (formed after elections in December 2000) was composed of a wide coalition and led by Zoran Djindjic (Democratic Party). Sanctions were gradually removed, the economy started to recover, and the Republic of Serbia, together with the Republic of Montenegro, entered a period of sweeping transition. Privatisation started, foreign investment increasing, and new laws in all areas were passed.

On 12 March 2003, the political stability of the country was deeply endangered by the assassination of Zoran Djindjic. Following this tragic event, the Serbian Government started eliminating crime and corruption from all political, economic and social structures countrywide. However, this government failed to survive until the end of the regular four year election term and a new parliamentary election was held in December 2003, after which a new Serbian Government was formed. A minority coalition led by Vojislav Kostunica of the Democratic Party of Serbia (DSS) took office on 3 March 2004. The coalition comprises the DSS, the G17 Plus and an alliance of the Serbian Renewal Movement (SPO) and New Serbia (NS). The Socialist Party of Serbia is not part of the government but is supporting it in parliament. Although the coalition which formed the new government had based its election campaign on criticism of the previous cabinet, it mainly continued on the path of reforms set by the late Zoran Djindjic. Drafting and adopting a new Constitution of Serbia was one of the key challenges facing the new Parliament and Government.

After two years of unsuccessful attempts, Serbian citizens finally elected a new President of Serbia in June 2004. The victory of Boris Tadic (the new leader of the Democratic Party) in the presidential elections came as good news for Serbia's efforts to join European integration and continue structural reforms of the Serbian economy and society. It was widely welcomed by the political and economic leaders of the EU, USA, Russia and other countries. On coming to power, President Tadic said that Serbia needed a stable political climate for the growth of its economy and that he was ready to contribute to this as President of Serbia.

After the referendum held in Montenegro on 21 May 2006, in which the majority of citizens of Montenegro voted for independence, the State Union of Serbia and Montenegro ceased to exist. Serbia is now an independent state with membership of a number of international organisations.

Negotiations on the future status of southern Serbian province Kosovo and Metohija and the cooperation with the Hague Tribunal are among the key political challenges facing the Serbian government. The issue of the cooperation with the Hague Tribunal is very much affecting Serbia's efforts to become a member of the EU.

Transformation of the large state owned public utilities has started with the adoption of the strategy for privatisation of the state owned oil company NIS. The privatisation process of this company will have two phases. In the first phase, the state will sell up to 40 percent to the strategic partner who wins the tender, while the state will retain the majority stake. It is only in the second phase, which starts in 2009, that the strategic partner will acquire majority ownership through the stock exchange. Meanwhile, part of the shares will be distributed to small shareholders, on the one hand, while the strategic partner will increase the company's quality and value with investments of around 850 million USD (which he will undertake to do in the sales contract).

The Government has appointed an advisor for the privatisation of Serbian Telecom as well. State-owned electricity company EPS will soon be the subject of transformation, since that privatisation advisor has been appointed recently.

After selling mobile phone operator Mobi 63 (former Mobtel) to Norwegian Telenor for EUR 1.5 billion, the Government of Serbia initiated the National Investment Plan, which is supposed to boost the Serbian economy by investing the privatisation money in a number of projects.

Towards EU

In 2005, the European Commission approved a Feasibility Report, assessing the readiness of Serbia and Montenegro to negotiate a Stabilisation and Association Agreement (SAA) with the EU. Negotiations between Serbia and Montenegro and the European Union on a Stabilisation and Association Agreement began formally in Belgrade on October 10. After the referendum on independence in Montenegro and the official end of the State Union of Serbia and Montenegro, the EU initiated a separate process and procedures for Serbia and for Montenegro in the process of EU accession.

The central goal of the new regional accessions and the long-term strategy for developing political, trade and institutional relations between the EU and the states of the Western Balkans is signing of a Stabilisation and Association Agreement. The Brussels strategy is not to prescribe a set deadline for the end of negotiations but to proceed at the pace needed for each country in the process of completing the tasks assigned.

Apart from adjusting its legal and economic system to the system of the EU, the main obstacle for Serbia in this process is the cooperation with the Hague Tribunal. The EU insists upon arresting and delivering General Ratko Mladic to the Hague Tribunal, who is accused of war crimes in Bosnia and is believed to be hiding somewhere in Serbia. The Government of Serbia has adopted an Action Plan which is supposed to lead to the completion of the EU request regarding this issue. This Plan was presented to the EU and received positive feedback.

Serbia - Economic Overview

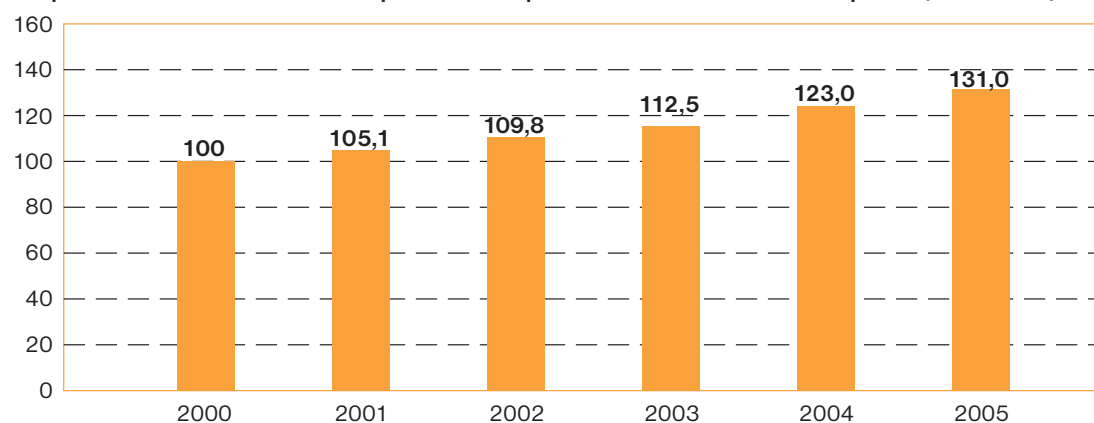
Gross domestic product

During the 1990s, as a consequence of the disintegration of SFRJ, economic sanctions, hyperinflation, wars in the surrounding area as well as NATO intervention, the GDP level has decreased by around 60 percent, compared to the corresponding level in 1989. The Period between 2001 and 2006 was characterized by intensive reforms, establishing macroeconomic stability, sustainable and stable economic development, restructuring of the big systems, privatisation of the companies and beginning of the EU accession, which also includes numerous adjustments in all segments of the economy and society.

The economic policy was geared towards simultaneously achieving the two goals of maintaining macroeconomic stability with high rates of economic growth. Production activity was accompanied by positive developments in the field of the economic transition, with reforms of the tax system, labour market, social sector. Furthermore, considerable deregulation and liberalisation of the prices and the foreign trade was accomplished, as well as regulating the relations with the international financial institutions. Considerable progress was achieved in the implementation of the structural reforms, especially in the field of privatisation of the companies and in consolidation and privatisation of the banking sector. More than 350 system laws were adopted that support the structural reforms. In 2005, the World Bank proclaimed Serbia to be a reform leader.

This reform programme has resulted in fast economic growth with a GDP level at the end of 2005 of 31 percent higher than the GDP level in 2000. Among the sectors that recorded the highest growth were: trade, traffic and financial sector. All other sectors recorded growth, except agriculture, forestry and tourism.

Graph number 1 - Gross domestic product of Republic of Serbia with constant prices (2000=100)



Source: Republic office for statistics

In the period 2000-2006, remarkably high growth was achieved. The average growth rate within the observed period was over 5 percent (table number 1) and the data for the first quarter of this year confirmed the continuation of this trend (the achieved growth rate was 6.3 percent)

Table number 1 - Growth rates of the real GDP in percent

| Year | 2000. | 2001. | 2002. | 2003. | 2004. | 2005. | Q1 2006 |
|----------------|-------|-------|-------|-------|-------|-------|---------|
| Rate of growth | 5.2 | 5.1 | 4.5 | 2.4 | 9.3 | 6.3 | 6.3 |

Source: Statistical bulletin, NBS

Meanwhile, there are numerous limitations of the economic development:

1. high level of unemployment,
2. problems of internal and foreign debt,
3. high foreign trade deficit,
4. two digit rate of inflation,
5. severe social tensions,
6. low competitiveness of the economy,
7. lagging in the reconstruction of the large systems,
8. poor condition of the infrastructure etc.

All of these characteristics (positive and negative) are largely a result of progress in transition and the implemented reforms. The European Bank for Reconstruction and Development (EBRD) has summarized, on the basis of transition indicators, the progress in the structural and institutional reforms for 27 countries in transition.

Every indicator was measured by the standards of the developed market economies and represented by a summarized assessment of the progress achieved in a particular field. The following table indicates transition indicators for Serbia, countries in the region, and selected advanced countries in transition.

Table number 2 – Transition indicators in selected countries in transition

| Country | Large-scale privatization | Small-scale privatization | Governance and enterprise restructuring | Price liberalization | Trade and foreign exchange system | Competition policy | Banking reform | Securities markets | Infrastructure | Average transition indicator |
|----------------------------------|---------------------------|---------------------------|---|----------------------|-----------------------------------|--------------------|----------------|--------------------|----------------|------------------------------|
| Serbia | 3- | 3+ | 2+ | 4 | 4- | 1 | 3- | 2 | 2 | 2,63 |
| SEE countries in transition | | | | | | | | | | |
| Bosnia | 3- | 3 | 2 | 4 | 4- | 1 | 3- | 2- | 2+ | 2,56 |
| Albania | 3 | 4 | 2 | 4+ | 4+ | 2 | 3- | 2- | 2 | 2,9 |
| Macedonia | 3+ | 4 | 2+ | 4 | 4+ | 2 | 3- | 2 | 2 | 2,95 |
| Croatia | 3+ | 4+ | 3 | 4 | 4+ | 2+ | 4 | 3- | 3 | 3,43 |
| Bulgaria | 4 | 4- | 3- | 4+ | 4+ | 3- | 4- | 2+ | 3 | 3,41 |
| Romania | 4- | 4- | 2+ | 4+ | 4+ | 2+ | 3 | 2 | 3+ | 3,21 |
| Advanced countries in transition | | | | | | | | | | |
| Hungary | 4 | 4+ | 4- | 4+ | 4+ | 3 | 4 | 4 | 4- | 3,92 |
| Czech | 4 | 4+ | 3+ | 4+ | 4+ | 3 | 4 | 4- | 3+ | 3,8 |
| Poland | 3+ | 4+ | 4- | 4+ | 4+ | 3 | 4- | 4- | 3+ | 3,73 |

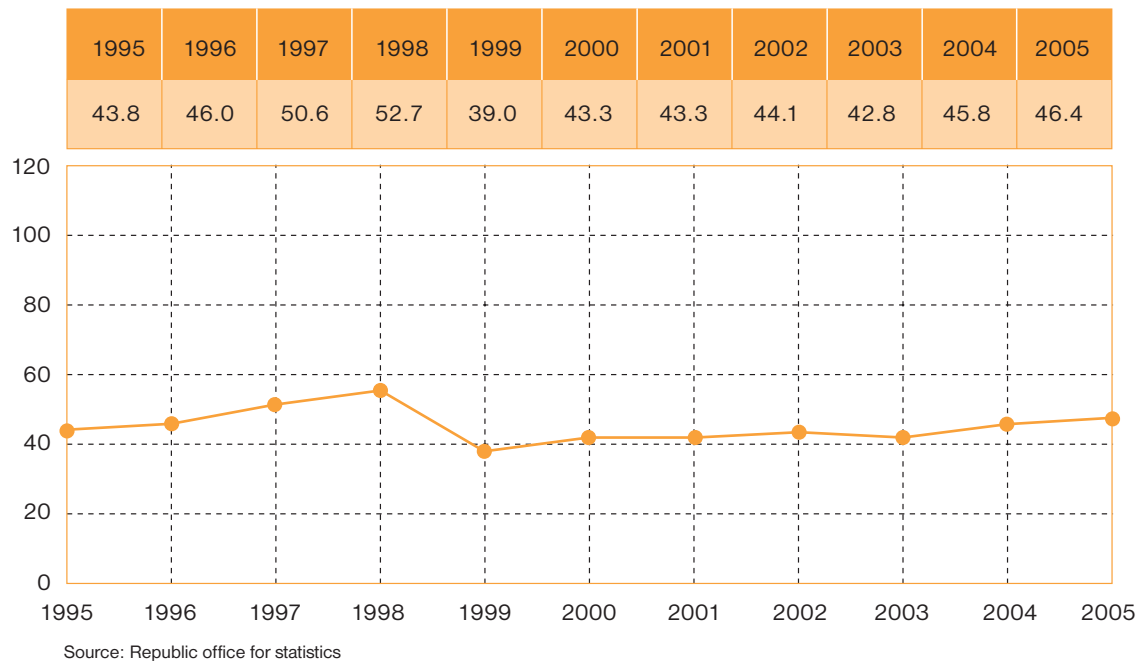
Remark: Transition indicators range from 1 to 4+. Mark 1 means that there are no changes compared to the socialist system, while 4+ represents performance similar to developed countries.

Source: Transition Report, EBRD

Analysis of the individual EBRD indicators in 2005 shows that Serbia received their highest mark for price liberalization, 4- for the foreign trade regime and 3+ for the privatisation of small companies where the transition process went furthest. Progress compared to the previous period was achieved in the Large-scale privatisation marked with 3-, restructuring of the banking sector and establishing of market of securities was marked with 3- and restructuring of companies 2+. A modest result with mark 2 has been given to the securities markets and for infrastructural reforms. The largest lag, without any progress has been recorded in the field of competition policy with the lowest mark of 1.

Therefore, a conclusion can be reached that priority fields where the reforms have to be intensified in the forthcoming period are: privatization and restructuring of big companies, competition policies, reform of the banking sector, reform of the financial market and infrastructure.

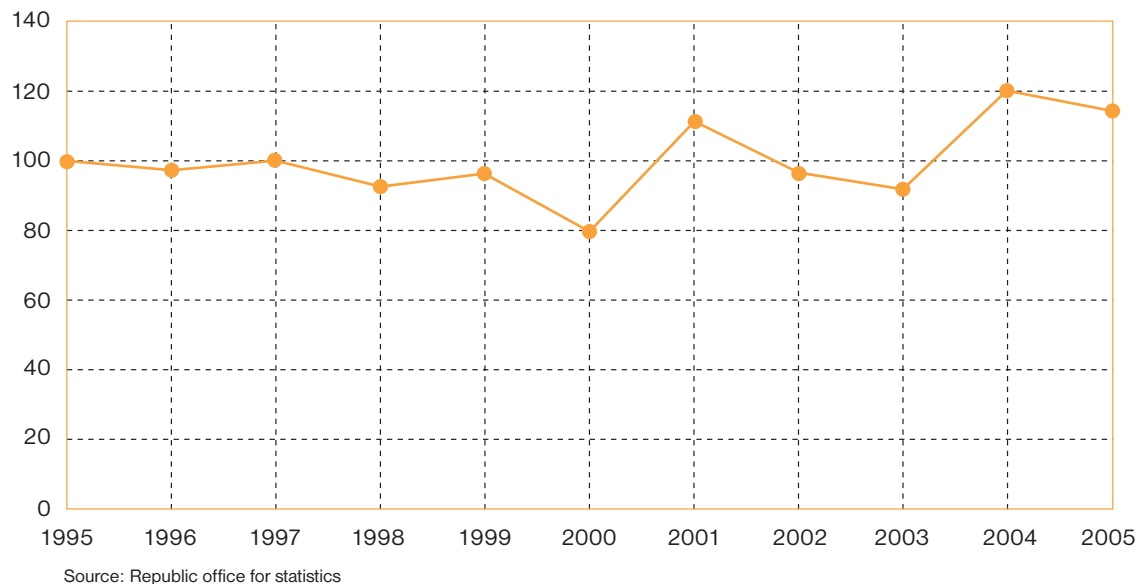
Industrial production has not yet recovered and stands lower than half of the industrial production achieved in 1990 (graph number 2). The data for this year is encouraging as, in the first six months of this year, growth of 5.9 percent compared to the same period last year was achieved. Announcements of a positive trend are also confirmed with the decreasing of stocks, which are lower for 1 percent as opposed to last year, despite the growth of production.

Graph number 2 – Industrial production in Serbia (1990=100)

The main reasons for the poor performance of the industrial production lies in the lagging of the restructuring of the big systems that are dominating the industrial sector. For most of these companies, it is not possible to find a strategic partner and the main solution will be liquidation or bankruptcy, but that is being postponed for the sake of maintaining social peace.

The fastest growing industrial branches in recent years are: the tobacco industry, production of non-metal minerals, industry of light metals, the food industry and steel industry. Branches having potential and from which rapid development can be expected are: the furniture industry, production of vehicles and trailers, textile industry, pharmaceutical industry etc.

Agriculture has a large share in the GDP, although it still has rather extensive character. Among the largest problems in this field are: small sizes of the agricultural plots, insufficient use of mechanization and fertilizers and chemical products for protection, a low percentage of the fields is covered with irrigation systems. All of these factors result in considerably poorer results than those of the developed market economies. Agricultural production is still highly dependent on the climate conditions, which cause large fluctuations in the production levels from year to year (graph 3).

Graph number 3 – Agriculture production in Serbia (1995=100)

Current challenges for the monetary policy

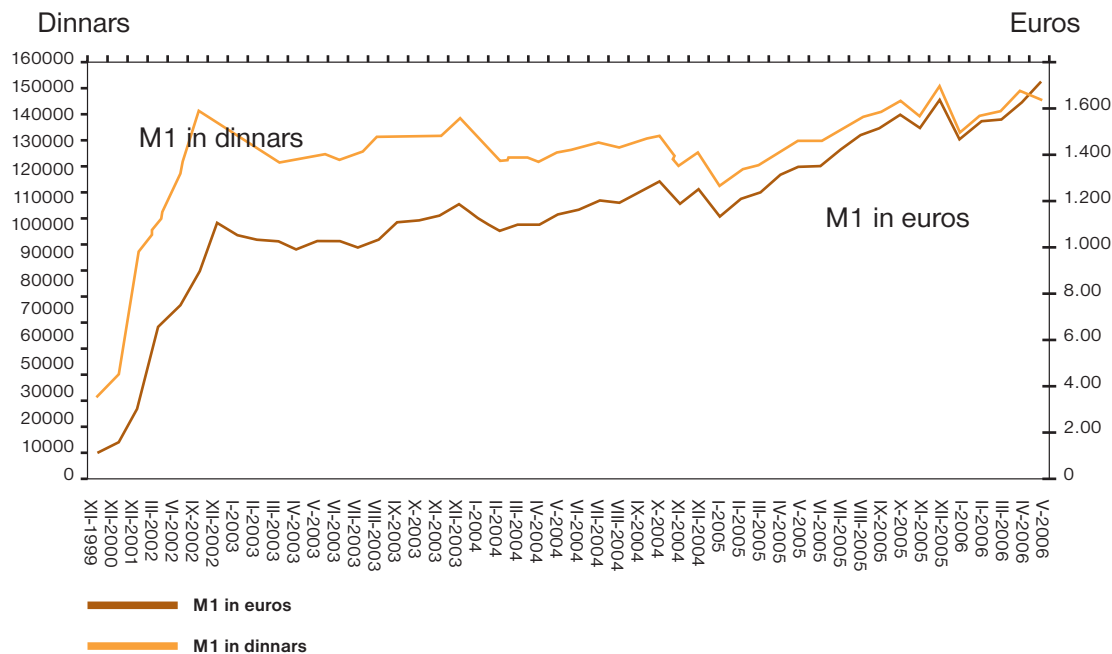
After one digit inflation achieved in 2003, inflation started to rise again. Last year, Serbia had a year end inflation of 17.7 percent, which was the highest in Europe. There are a number of factors contributing to the growth of inflation. The first factor is the growth of the oil prices in the world stock exchange, although this factor struck all countries that are not producers of oil. Next to this factor, we should add the influence of the communal services, electricity and higher growth of the agricultural prices than expected. Furthermore, higher growth of salaries than productivity creates a surplus of demand, which partly causes inflation and partly increases the deficit of the current account of the balance of payment. Expansion of the consumption credits and the increased activity of the leasing companies also creates the effect of increased demand (partly causing growth of the inflation and partly creating deficit of the current account of the balance of payment). The level of public consumption is still very high and the extremely high inflow of foreign currency that NBS has to convert into dinars additionally influences the growth of inflation. Restrictive measures, which NBS has applied, started this year to slow down the rate of inflation. Expected inflation for this year is around 10 percent.

The NBS leads contractionary monetary policy aimed at sterilizing the high inflow of money stock. In the course of the last year, the NBS has sterilized around 219 billion dinars, which was an expensive operation but without it the effect upon inflation caused by the additional demand would have been significant. Meanwhile, only in the first six months of this year did the amount of sterilisation of temporarily sales of securities exceed last year's amount, and stand at 226 billion dinars.

Also, in order to limit too much indebtedness to banks abroad, NBS has implemented measures of extending the base and increasing the rate of reserve requirement. The rate of reserve requirement was raised to 60 percent for loans with a maturity of shorter than two years and is only higher in Croatia. Meanwhile, the abovementioned measure did not give results in other countries that used it, so banks started taking credits with maturity periods of longer than two years, but with an opportunity for earlier repayment. Therefore, it is no surprise that the trend of emphasised credit expansion from 2005 has also continued in 2006. The main source of bank financing is continuing to be the foreign capital.

Despite the contractionary monetary policy and the temporary drops of the monetary stock, aggregate M1 shows permanent growth and at the end of May this year was higher by 13 percent compared to the same period last year, which is approximately similar to the inflation rate that existed in the period May 2006/May 2005.

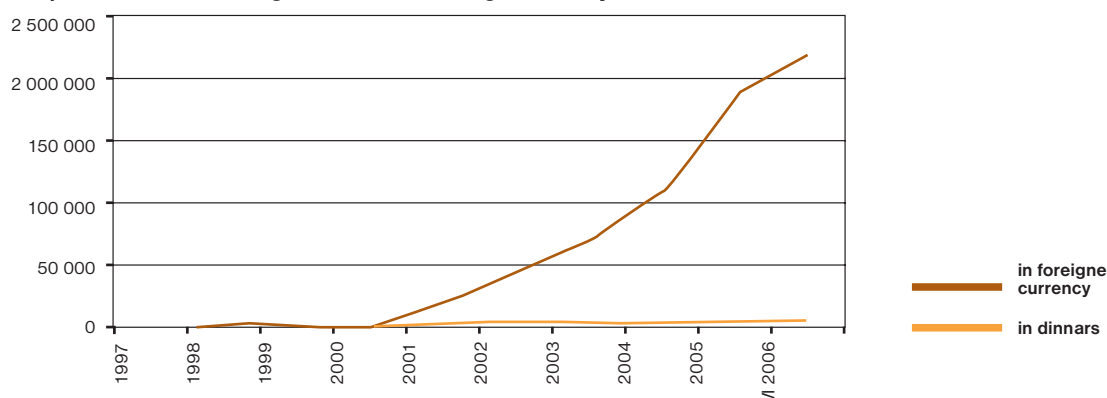
Graph number 4 – Monetary aggregate M1 (in millions)



Source: Macroeconomic analysis and trends, number 6, June 2006

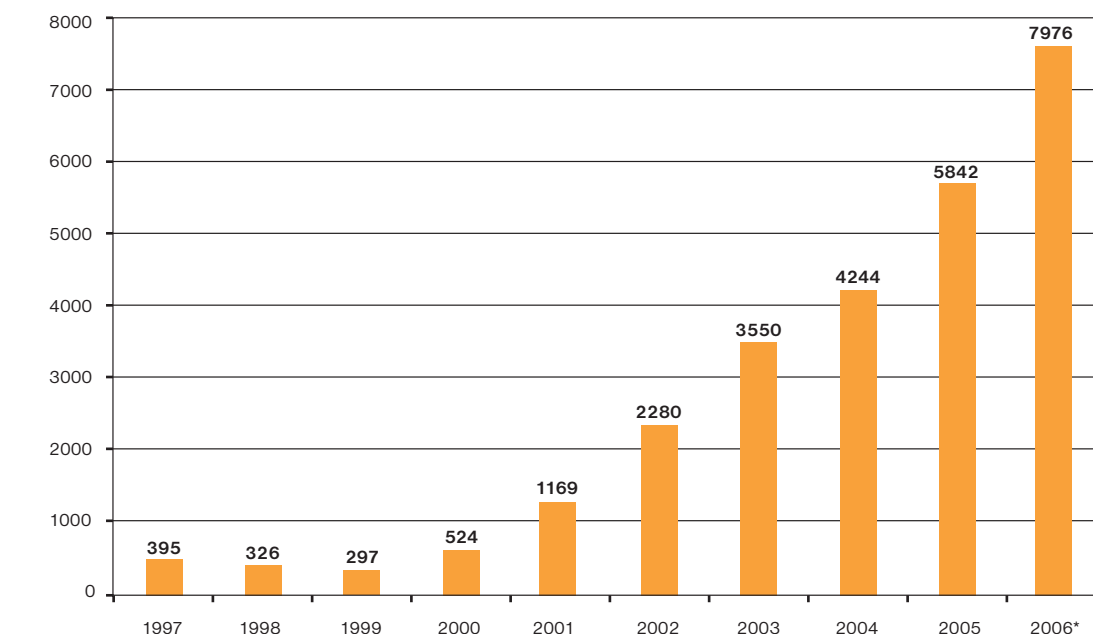
The financial system is almost completely reliant upon on the banks. The financial market is undeveloped while the number of instruments is insufficient. Due to the non-existing legislation, investment funds do not exist, and the same holds for private pension funds. Insurance companies do not participate in the financial market.

After the total collapse of the banking system in the nineties, the process of restructuring the banking system has been successfully completed. The best indicator of successful reforms is the very fast growth of the savings. Meanwhile, due to the high instability, the dinar did not regain the function of a currency for savings, so savings are still in foreign currencies, mainly EUR. At the end of June 2006, only 2.26 percent of the savings were in dinars (graph number 5). In order to encourage savings in dinars, NBS has issued three series of saving notes with interest rates of 24 percent and 19 percent.

Graph number 5 – Saving in dinars and foreign currency

Source: Statistical bulletin, NBS

Foreign currency reserves show constant growth, which is partly the consequence of the extremely high reserve requirement and the two arrangements with IMF that were aimed at strengthening the foreign currency reserves, which can be used for defence of the exchange rate of the dinar. The coverage of the monetary stock, aggregate M1 with foreign currency reserves is more than three times higher. Therefore, NBS has decided to repay part of the foreign debt towards IMF earlier. The current level of foreign reserves is sufficient to cover eight months of import.

Graph number 6 - Foreign reserves of Serbia (in million of USD)

* - estimate

Source: Statistical bulletin, NBS

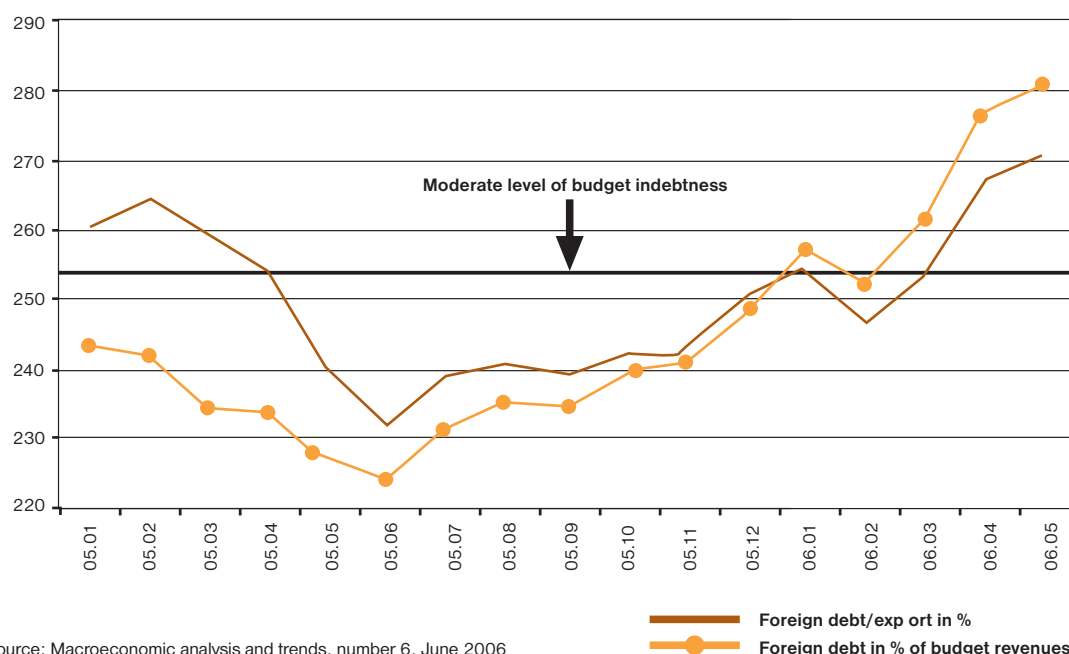
Fiscal policy

After almost seven decades, a budget credit was achieved for the first time last year. A considerable level of surplus is also planned for this year, although the dynamics of public revenues in the first half of the year is lagging behind that which has been planned for this year. Namely, in the first half of this year realisation of the public revenues represented 44.9 percent of the plan, while realization of the revenues was 47.3 percent of the plan. In this period, only one fifth of the planned budget surplus has been achieved. It is important to mention that payments of the obligations of the state with regard to the old foreign currency savings, as well as payments of earlier credits taken on the domestic and foreign markets have been planned to be done from the surplus. Meanwhile, without an announcement of radical cuts in the budget costs, a series of activities aimed at realization of the budget surplus have been launched. The following announcements were presented: increase of the salaries in the public sector from 2 percent to 40 percent, direct subsidizing of the small and medium companies, and future greenfield investments as well as implementation of the national investment plan (with a total amount of more than EUR 1 billion).

Foreign debt

Serbia received considerable cancellation of the foreign debt from the Paris and London Club, but nevertheless still has a high degree of foreign debts. In the middle of 2006, foreign debt reached the amount of USD 17 billion, which represents 70 percent of the GDP.

Graph number 7 – Level of indebtedness of Serbia

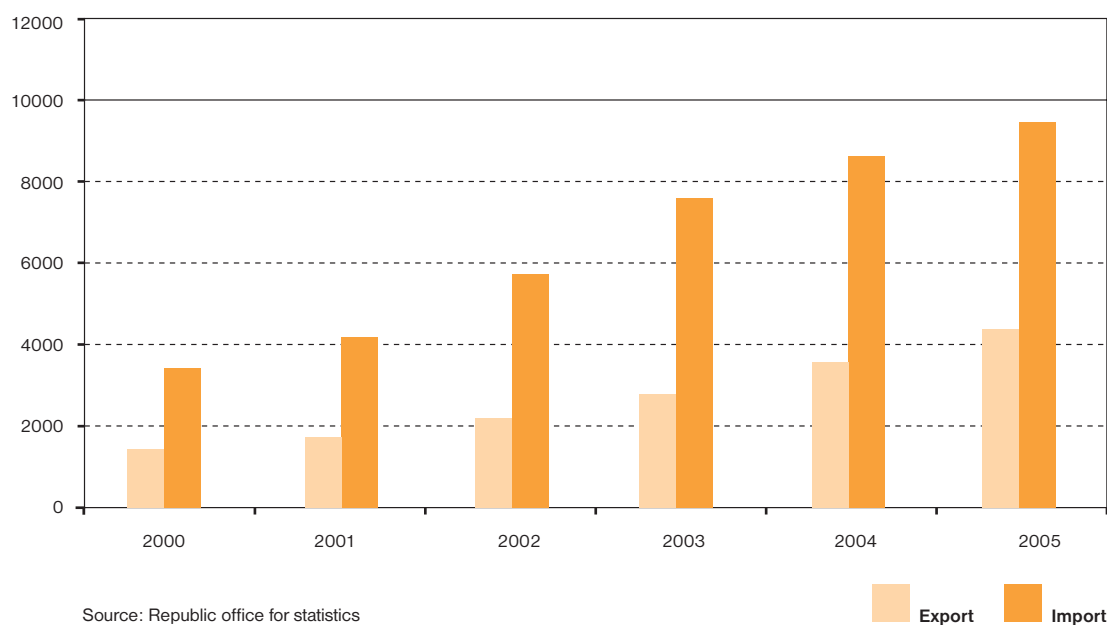


Source: Macroeconomic analysis and trends, number 6, June 2006

Foreign trade policy

Serbia has extremely uncompetitive production, which has for many years created a high level of foreign trade deficit. Despite the clear tendency of export growth, the import still grows much faster. This tendency continued also in the first half of the year, with export growing by 19 percent and import by 23.5 percent. Foreign trade deficit was USD 3.3 billion in the first six months, which is more than 27.5 percent compared to last year's level.

Graph number 8 - Export and Import of Serbia



Source: Republic office for statistics

The export structure is dominated by products with a low level of processing such as: light metals, iron and steel, grains, sugar, textile products, wood etc. The export of the light metals, iron and steel represented one third of Serbia's export in the first half of 2006. Serbia's import is dominated by products such as: oil derivatives, road vehicles, gas, industrial machines etc. In the first half of this year, the coverage of the import with export was 43.3 percent and is lower than last year's level of 45 percent.

Last year, the deficit of the current account of the balance of payment was, for the first time in six years, lower than the previous year. Nevertheless, it is still rather high and amounting to USD 2.5 billion, which is 10 percent of the GDP.

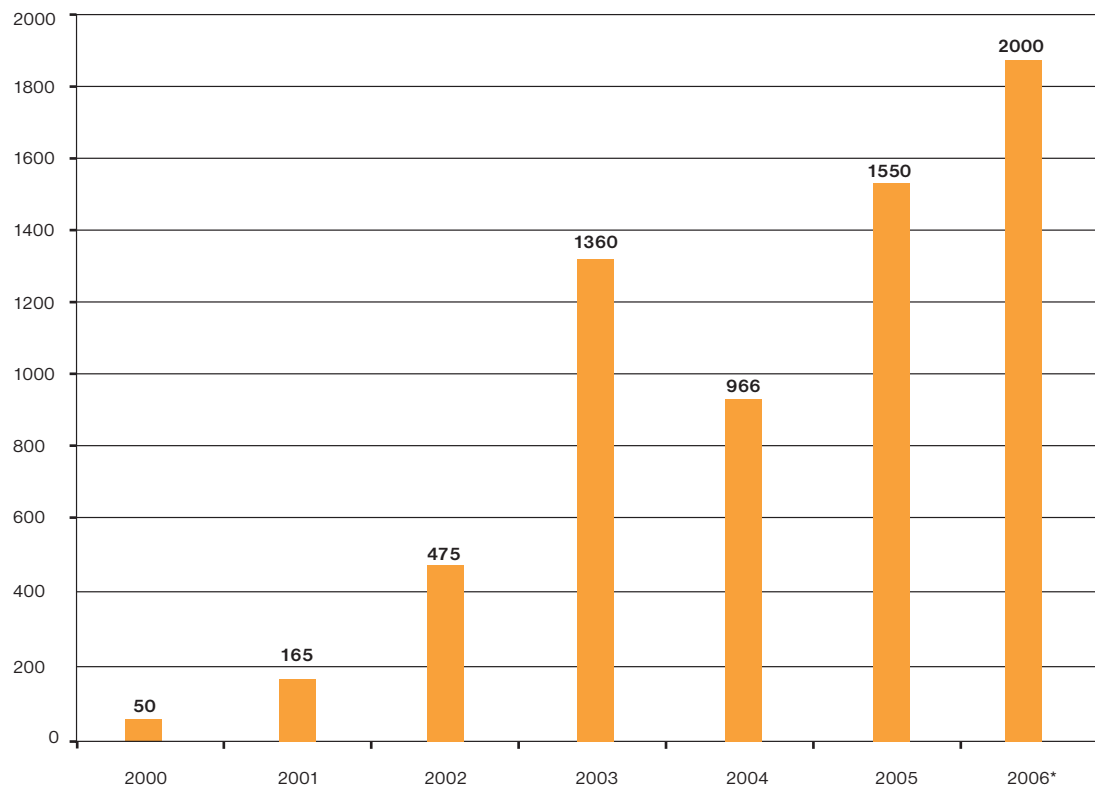
Current transfers represent the most important item in the financing of the current account deficit. Current transfers comprise foreign remittances of workers from abroad, deposits of non-residents and foreign exchange bought

in the exchange offices. Net inflow of foreign currency through the network of exchange offices and banks represents the informal inflow of remittances and income generated in the grey zone. The surplus on the capital account is in permanent growth, through the inflow of foreign direct investments, inflow of foreign credits and with the growth of reserves of NBS. It is interesting to note that only 40 percent of the middle and long term foreign debt came through the banking system, while the rest represents direct lending of the companies abroad. Due to the extremely high interest rates there is a high inflow of speculative capital.

Foreign direct investments

Due to the ambitious reform program and relatively high growth rates, Serbia is becoming very attractive for foreign investors. Acceleration of the inflow of foreign direct investments began in 2000 and an inflow of foreign direct investments of around USD 2 billion is expected this year.

Graph number 9 - Foreign direct investments in millions of USD



* - estimate

Source: Statistical bulletin, NBS

Author of this chapter is **Nikola Fabris**, PhD, Chief Economist of the Central Bank of Montenegro.



Business Environment, Privatisation and Investments

Investor Considerations

Privatisation Law considered among the best in transition countries
 Government committed to stimulating foreign investments
 No restrictions on foreign ownership
 New solutions introduced by the Law on Foreign Trade Transactions
 New solutions introduced by the Law on Foreign Exchange Transactions

The legal framework relevant for foreign investment encompasses the following acts:

- Law on Foreign Investment (enacted in January 2002, amended in January 2003)
- Law on Free Zones (enacted in 1994, amended in 1996 and 2005)
- Law on Foreign Exchange Transactions (new law enacted in July 2006)
- Law on Foreign Trade Transactions (enacted in November 2005)
- Customs Law (enacted in 2003, amended in 2005)
- Set of privatisation laws:
 - Privatisation Law, (enacted in 2001, amended in 2003 and 2005)
 - Law on the Agency for Privatisation (enacted in 2001, amended in 2004)
 - Share Fund Law (enacted in 2001, amended in 2005)
- Company Law (enacted in 2004)
- New Law on Securities and other Financial Instruments Market (enacted in June 2006)
- Law on Takeover of Joint Stock Companies (enacted in June 2006)
- Law on Registration of Commercial Entities (enacted in 2004, amended in 2005)
- Law on Concessions (enacted in 2003)
- Insurance Law (enacted in 2004, amended in 2005)
- Law on Value Added Tax (enacted in 2004, amended in 2005)
- Bankruptcy Law (enacted in 2004, amended in 2005)
- Law on Games of Chance (enacted in 2004, amended in 2005)
- Energy Law (enacted in 2004)

Investment Climate

Since January 2001, Serbia has shown a strong commitment to establishing a modern market economy and re-entering European and global markets. Substantial reforms have been initiated to that end, particularly in creating a business-friendly environment. These include legal and economic reforms in all areas, aimed at ensuring legal security and harmonisation with EU legislation and economic policies.

Within this process, foreign investments have been encouraged and restrictions are negligible. The institutions responsible for foreign investment regulations are the following:

- The Ministry of Foreign Affairs
- The Ministry of International Economic Relations
- The Serbian Investment and Export Promotion Agency
- The Ministry of Economy
- The Serbian Chamber of Commerce

The geographical position and the low cost of labour make Serbia a competitive environment for investment. With the development of a Balkan Free Trade Zone, this regional market will exceed 65 million people. In addition to intensifying trade, this integration may also contribute to political stabilisation in the region. As a result of the regional integration and the international integration of the region into Europe - both politically and economically - continued dynamic growth is expected over the medium term, which will accelerate the economic catching-up process of South Eastern Europe with the EU member countries. Recording average growth rates of 5 percent

and above, the region is the most promising market on the European continent, provided that political stability is maintained, political problems are resolved, economic reforms proceed rapidly, the legal framework improves further, and legal security increases.

The Multilateral Investment Guarantee Agency (MIGA), an institution of the World Bank Group, provides investment guarantees against non-commercial risk (currency inconvertibility and transfer restrictions, war and civil disturbance, expropriation of assets, and breach of contract).

For the purpose of developing a more favourable environment for foreign investments, several important economic laws have been passed; still, much remains to be done. The most important new pieces of legislation regulate companies, bankruptcy procedure, financial markets, securities, transfer of capital etc. The tax regime for foreign investors is an additional stimulus. The existing tax regime is appraised as very favourable, with corporate profit tax set at 10 percent, tax deductions for investing in fixed assets, ten-year tax holidays for investments over 600 million CSD (approx. 7,1 million EUR) in fixed assets and creation of more than 100 new jobs during the investment period, various tax exemptions, and other incentives.

A positive development towards further improvement of the investment climate is a series of efforts made to reduce external debt. In November 2001, the debt to the Paris Club was consolidated, when it was agreed that the write-off and other rescheduling terms would be implemented as of March 2002. According to the official data of the NBS (Statistical Bulletin, May 2005:57), the total debt to the Paris Club in May 2005 amounted to USD 2,887.9 million. Negotiations on writing-off and rescheduling of debt to the London Club were concluded in mid-2004. According to the NBS statistics (Ibid, 2005:57), the total debt to the London Club in May 2005, after the remission of 62% of the debt, amounted to USD 1,076.5 million.

Foreign and multinational companies have begun to appear on the Serbian market as of 2002. According to the official data of NBS, the institution authorised to report on foreign direct investment (FDI), FDI in 2003 amounted to USD 1,360 million and in 2004 decreased to 996 million USD (Ibid, 2005:48). In 2005 level of FDI in Serbia was 1550 million USD. Estimated level of FDI in 2006 is 2 billion USD.

Foreign Investment Law

Foreign investments in Serbia are regulated by the Law on Foreign Investment (LFI) passed in 2002. Due to the fact that the LFI was passed on the level of the State Union, which does not exist any more following the independence of Montenegro, the Serbian Government is preparing a new LFI. The fundamental aim of the Serbian Government is to create a business-friendly legal, economic and political environment for all foreign individuals and companies interested in doing business in Serbia, by equalising the rights and responsibilities of domestic and foreign investors, and providing other necessary conditions. A long-term goal is also to create a legal system compatible with European Union legislation as a first step towards future integration.

The current LFI regulates foreign investment in enterprises and other forms of establishment engaged in profit generating activities in Serbia.

According to the LFI, a foreign investment may be made either by founding a new company or by expending the capital of existing domestic companies through the acquisition of stocks or shares in the initial capital of that company and/or acquiring any other property rights in a company.

Definitions

According to the LFI, a foreign investor is:

- A foreign entity whose headquarters are located abroad,
- A foreign natural person,
- A national of Serbia who is resident abroad for a period exceeding one year.

According to the LFI, a foreign investment is:

- Investment in a domestic company, granting a foreign investor a stake or shares in the initial capital of that company,
- Acquisition of any other property rights in the sense of a realisation of a business interest in Serbia.

A foreign investor may found or invest in a company engaged in any kind of business activity without any limitation.

Restrictions

The foreign investor may not, alone or with another foreign investor, establish a company in the field of production and trade in armaments, or in areas defined by the law as restricted zones. A foreign investor may establish a company in the production of and trade in armaments or invest capital exclusively in it, together with a domestic entity, but without acquiring the majority rights in management of such a company and only with the consent of the Ministry of Defence of Serbia. The same provisions apply to the areas that are defined as restricted zones. The removal of previous limitations on the establishment of a company wholly owned by a foreign person in the

field of telecommunications and media is significant. Under the previous legislation, the majority of the capital of these companies was required to be owned by a domestic person.

Please note that some other laws also regulate business areas in which foreign investors may not, alone or with another foreign investor, establish a company e.g. Broadcasting Law.

The contribution of a foreign investor may be in the form of foreign currency, contribution in kind, intellectual property rights and securities. The contribution can also be in the local currency but only if these funds, in accordance with the foreign exchange operations regulations, may be transferred abroad, including remittance of any profit. Although not explicitly regulated by the LFI, the services of foreign investors can also be invested due to an explicit provision of the Company Law allowing that to all entities. A foreign investor may also convert confirmed receivables into capital i.e. shares in a company.

Legal status

A foreign investor is guaranteed *national treatment*, which means that any legal entity and natural persons who are investing in Serbia enjoy full legal security and protection, equal to those of domestic companies.

The Law guarantees *legal security* to the foreign investor. Consequently, if a change is made to the law under which an agreement was concluded after the investment agreement is registered, the provisions of the agreement, articles of association and the law in force on the date of the registration of that agreement shall apply to the relations regulated by it. It is important to emphasise that a stake held by a foreign investor or a company with a foreign investment can not be the subject of expropriation, except when so required by the public interest as established and determined by the law. Moreover, in the case of expropriation, the foreign investor or the company with foreign investment is entitled to compensation not lower than its market price. The provisions relating to expropriation are new to the Serbian legal system and bring together issues related to foreign investment, with provisions of bilateral contracts on the encouragement and protection of foreign investment.

Parameters of foreign investment

Foreign legal and natural persons can, under reciprocity conditions, both found and invest funds in an insurance joint stock company.

In respect of any payment relating to the foreign investment, a foreign investor may freely convert domestic currency into foreign convertible currency.

Within the scope of Company Law, a foreign investor is authorised to:

- Govern or take a part in governing the company he has founded or in which he has invested his capital, proportionally to his capital contribution and in accordance with the Company Law,
- Transfer the rights and obligations, which are incorporated in the investment contract or founding act, to the other foreign or domestic legal entities or persons,
- Inspect the company books and supervise the business activities of the company in which he has invested,
- Audit the interim and annual financial statements either personally or by engagement of an authorised representative.

Construction land regime

Construction land in Serbia is state-owned, although the buildings on it may be privately owned. A foreign investor may, under the condition of reciprocity, acquire ownership of buildings, provided that these buildings are necessary for performing their activities in the country.

A detailed description of the land regime is provided in Chapter Eight.

Transfer of assets

If the prescribed tax requirements and other outstanding commitments have been settled in Serbia, the foreign investor may, without any further limitation or delay, transfer financial assets relating to the foreign investment such as:

- Profit that was realised through the business activities of the company,
- Remaining property of the company, after dissolution of the company,
- Money assets relating to purchase of stocks and shares,
- Money assets after decreasing the initial capital of the company with foreign investments,
- Compensation in the case of expropriation of the company property, as well as any indemnity.

Equipment representing the foreign investor's stake is unrestricted, subject only to environmental protection regulations. Imported equipment is exempt from customs duties and other import charges, except for motor vehicles and gambling machines.

Procedural obligations

Alongside its obligation to keep books and financial statements in accordance with Serbian regulations, a company with a foreign stake holding has the right to keep books and financial statements in accordance with international accounting standards (IAS), currently International Financial Reporting Standards (IFRS).

All investments must be registered at the Register of Companies, using the procedure for the establishment of a new company or amendment of the Foundation Act of an existing company, and the Agency for Registration of Business Entities will then inform the competent ministry.

Any dispute related to foreign investment may be settled either before the Serbian court or in domestic or international arbitration as agreed between the parties.

Foreign Investors' Rights and Protection

The term foreign investor refers to a foreign legal entity with its headquarters registered abroad, a foreign natural person, or a national of the Republic of Serbia residing abroad for a period exceeding one year. Investments can be made through incorporating a business entity or purchasing shares or stock in existing companies. Any legal entity established in accordance with domestic legislation and registered in Serbia is guaranteed national treatment.

The legal security of investments is guaranteed. No entity can be deprived of property nor can the property be limited, except in the case of invocation of a vital and indisputable public interest, in full respect of the procedure in which the existence of such interest is determined, and followed by the immediate payment of compensation, in the amount of the market value of the property before expropriation. In the event of any change in the law under which the founding or investment contract is approved and registered, the investor has the right to maintain the relations regulated in the contract according to the statute and law which were in force when the investment was made, if he considers these more favourable.

A foreign investor has the right to make payments under international business arrangements and to maintain accounts in accordance with international accounting standards. If a bilateral or international treaty provides for conditions more beneficial for a foreign investor, its implementation has primacy over the provisions of relevant domestic legislation. The equipment which represents an investment may be imported free of customs and other import duties.

Registration

Registration of a company in the Agency for Business Registries is required.

Restrictions

Foreign entities are not permitted to own a majority interest in companies or enterprises engaged in the production or sale of armaments or located in special geographical zones (e.g. border zones, national parks). These kinds of foreign investments are subject to approval from the competent ministry. Meeting environmental protection standards and regulations is compulsory.

Investments regulated separately by specific laws include:

- Banks
- Insurance companies
- Stock exchanges
- Stock broking companies
- Free trade zone managing companies
- Broadcasting companies

The Law on Foreign Trade Transactions

In November 2005, the new Law on Foreign Trade Transactions (the Law) was adopted.

The Law intends to create a clear basis for liberal foreign trade. The basic principles and restrictions set by the Law should meet EU and WTO (World Trade Organization) criterion.

Generally, the Law states that foreign trade is liberal and without limitations. Once registered for performing business activities, a legal entity/entrepreneur may perform foreign (as well as domestic) trade operations.

Significant changes

The Law deals with the export/import of goods, national treatment, quantitative limitations and permits, special conditions for performing foreign trade operations, safeguard issues, temporary regimes and related measures.

A major change is that the Serbian Agency for Business Entities (BRA) is now the competent body for registration of representative offices of foreign legal entities. Previously, the Ministry of International Economic Relations (MIER) was responsible for keeping the registry of representative offices. A new bylaw on registration and operations of representative offices has also been adopted.

Foreign entities/persons and imported goods enjoy the same treatment and the same status as domestic entities/persons and goods respectively i.e. national treatment, in regard to their import or export in Serbia.

The Law is in favour of long-term business technical cooperation agreements which have to be in accordance with the customs legislation and be approved by MIER.

Goods under customs supervision and not imported may be the subject of sale. No special approval or administrative procedure is now required for re-export transactions.

The Law stipulates seven cases of free export or import transactions that should be performed with the Ministry's approval.

Authorities in charge

The Government is responsible for prescribing restrictions and their implementation. MIER is responsible for implementation of provisions of this Law. BRA maintains the registry for representative offices.

Foreign Exchange

In July 2006, the Serbian Parliament adopted a new Law on Foreign Exchange Operations¹ (the Law).

The Law provides rules for current transactions, capital transactions, payment transactions, the foreign exchange market and supervision.

By the new Law, the foreign exchange operations are further liberalized. The Law is in compliance with other fairly adopted legislation in this area i.e. the Law on Foreign Trade Transactions, Law on Banks, and Law on Voluntary Pension Funds and Pension Schemes and others.

● **Current transactions**

Payments based on current transactions are free and without limitations. The Law specifies which transactions should be regarded as current.

A new deadline has been introduced for residents to bring into Serbia means of payment with regard to the export of goods or services. According to the Law, the deadline is 180 days from the day of export customs of goods. The same deadline applies when a resident imports paid-in-advance goods or services.

According to the Law, it is not possible to perform payments or transfers towards a non-resident on the basis of an agreement that does not contain the real price or is concluded on the basis of an untrue document.

Banks and resident legal entities may purchase or sell claims and payables arising from residents' foreign trade activities. This legal solution is a new and should enable companies to have cheaper and easier access to additional financing.

Under terms and conditions prescribed by the Government, a resident legal entity may compensate the realized export of goods and services with the realized import of goods and services.

Profit made abroad from the performance of construction works, as well as foreign exchange kept by the ordering party as a guarantee of the correctness of performed works, has to be brought into the country by the resident upon the completion of construction works, and/or expiry of the guarantee deadline.

● **Capital transactions**

By the Law, capital transactions have also been liberalized. Payments and transfers of capital with regard to direct investments, investments in real estate and transactions with securities are executed freely, in accordance with regulations. Therefore, residents can now freely purchase shares available on foreign exchange markets but can only acquire a minority stake (up to 10 percent).

Residents can now freely transfer the money for the purchase of real estate abroad and non-residents for the purchase of real estate in Serbia.

Payments for the purpose of purchasing financial derivatives abroad may be effected by the NBS and banks. Residents and non-residents may effect such payments only under the terms and conditions prescribed by the NBS.

Furthermore, the Law now regulates international credit operations (this matter used to be regulated by a the Law on International Credit Operations from 1992, that by adoption of the Law ceased to exist).

¹published in the Official Gazette of RS no. 62/2006 from 19 July 2006

For resident legal persons and entrepreneurs, banks may approve credit in foreign currency for the payment of import of goods and services. For resident natural persons, banks may approve credits in foreign currency for the purchase of real estate in Serbia.

Banks can keep foreign exchange on the accounts of banks abroad without any restrictions.

Residents may now also keep foreign exchange on the accounts of banks abroad in the manner and under conditions prescribed by the NBS.

Non-resident and resident branches of a foreign legal entity, which transact business through a non-resident account, may effect the transfer from such an account to abroad, provided that its tax liabilities towards the Republic, arising from its business activities, have been settled.

● Payment transactions

Contracting in foreign exchange in the country is allowed, but payment and collection has to be effected in dinars. By way of exception, the Law enumerates cases when payment and collection can also be effected in foreign exchange. These cases include transfer in respect of life insurance and sale and lease of real estate.

● Supervision and penalty provisions

The Foreign exchange operations are subject to supervision, conducted by the NBS, the Foreign Exchange Inspectorate, the Customs Authority, and other bodies-in-charge.

Criminal acts, and especially misdemeanours, are prescribed in more detail for those violating the provisions of the Law.

The law came into force on 28 July 2006.

The NBS has to adopt several decisions regulating the details of certain transactions envisaged by this Law. Several decisions have already been published on 4 August 2006.

Privatisation

The transparent and mandatory privatisation of socially owned enterprises started in 2001 with the passage of the Law on Privatisation. The process will bring an end to social ownership and create a private ownership structure. The key objective is to attract foreign investment. Additionally, privatisation is expected to lay the foundations for strong corporate governance and the establishment of a vibrant stock exchange.

At the beginning of the process, there were around 7,500 socially owned enterprises in Serbia. The Law on Privatisation envisages public tender and public auction as methods of privatisation. A company which cannot be sold without being restructured enters restructuring upon the decision of the Privatisation Agency (the Agency).

The decisive factors for winning the tender are the proposed investment and the social and ecological programmes offered. Each privatisation tender process is estimated to take from six months to one year.

Although the process began almost four years ago, there are still a number of opportunities in a vast range of industries and sectors.

The privatisation process in Serbia, defined by the Law on Privatisation (RS Official Gazette, No. 38/01, 18/03 and 45/05), is mainly based on the model of direct sale, whereby up to 70 percent of the shares in a firm are sold either in tender or in public auction to a private buyer. The process comprises three phases: selection of a consultant, preparation of documentation, and sale.

The first tangible results were realised in 2002 when 217 firms were sold by tender (12) or auction sale (205), generating proceeds totalling EUR 261 million as well as the additional investment and social welfare commitments of the buyers amounting to EUR 320 and 140 million respectively. Furthermore, minority government holdings in 87 firms were offered for sale, of which 48 sales were successful and generated proceeds of EUR 81 million.

In January 2002, the first investment tender was completed for the privatisation of three Serbian cement plants. The privatisation process in Serbia almost tripled its speed in 2003 in all sectors. A total of 696 privatisations were completed via tender and auction procedures (the success rate is 85 percent), while 121 minority packages held by the government were sold to private buyers via the capital market. The total privatisation receipts of EUR 947 million generated in 2003 far exceeded the projections. In 2003, a total of 42 enterprises were offered through tender sale. Of these, only 22 (as opposed to 12 in 2002) were successfully sold, mainly to foreign buyers. The total sale price realised amounts totalling EUR 605.5 million (which is three times the amount realised in 2002), while the additional investment and social commitments amount to EUR 330.8 million and 129.8 million respectively. The three privatisation champions in 2003 were in the excise industries – the sales of Beopetrol to Lukoil and the two tobacco factories in Vranje (DIV) and Nis (DIN) to British American Tobacco and Philip Morris International. The income from these three tender sales amounted to 63 percent (EUR 554 million) of the total proceeds realised in both auction and tender sales in 2003.

Out of 773 enterprises that were offered via auction proceedings in 2003, 674 were successfully sold, which is more than three times the number of the enterprises auctioned off in 2002 (205). The total sale price realised was EUR 274 million, with additional investment commitments of EUR 61.7 million made by the buyers.

The table below illustrates privatisation results achieved from 2002 to the end of 2004:

| Privatisation Method | Sold companies | Success rate | Selling price (000 EUR) | Investments (000 EUR) |
|----------------------|----------------|--------------|-------------------------|-----------------------|
| Tender | 55 | 58.5% | 909,000 | 738,100 |
| Auction | 1,251 | 79.6% | 600,800 | 160,800 |
| Share Fund | 530 | 71.3% | 326,000 | 5,902 |
| TOTAL | 1,836 | 77.5% | 1,835,800 | 904,800 |

Source: priv.yu, Publications, Privatisation in Serbia, slide 12

A number of socially and state owned banks and hotels were offered for privatisation in 2005 and 2006. So far, large banks such as Continental Banka, Novosadska Banka, Vojvodjanska Banka and Panonska Banka have successfully been sold through tender. Hotels Yugoslavia and Metropol were also sold as an asset of the major state owned insurance company Dunav Osiguranje AD.

In accordance with WB and MMF guidelines, it is anticipated that the ten largest state owned enterprises undertake a restructuring process: Electric Power Industry of Serbia (EPS), NIS - Petroleum Industry of Serbia, Railway Transport Company (ZTP), PTT Post, Telecom, Srbijasume, Srbijavode, and Belgrade Airport.

So far, the process has been initiated in respect of public enterprise airline JAT Airways and petroleum producer Naftna Industrija Srbije (NIS). The tender for sale of the minority stake in NIS will be announced till the end of 2006.

The largest state owned companies, including the public power utility Elektroprivreda Srbije (EPS) and), will be privatised last.

With the adoption of the amendments to the Privatisation Law, the process of privatisation is facilitated in so far as the amendments introduce, inter alia, the following:

- Obligatory remission of debts by state (public) creditors towards companies in privatisation, in the process of restructuring
- Provisions explicitly defining processes within restructuring (e.g. status changes, changes of legal form, settlement of creditor-debtor relations)
- Liability of the person responsible in the subject of privatisation, for giving false data about the subject's business

The biggest success in privatisation in Serbia was done in August this year in a telecommunication sector when the Serbian Government together with the minority foreign shareholder have sold total capital of second major mobile operator in Serbia i.e. Mobi 63 to Telenor for EUR 1.5 billion.

Concessions

A foreign investor may be granted a concession for use of natural resources or providing goods in general use or performing activities of general interest. Permission may be granted to build, operate and transfer (BOT) certain projects, production plants or capacity as well as infrastructure or communication facilities. The Law on Concession of Republic Serbia ("Official Gazette of RS", No. 55/2003) covers the relevant subjects.

Foreign investors are not allowed to obtain concessions in certain restricted fields of business activities and in areas that are designated restricted zones.

The Law on Concessions states that the duration of a concession may be up to 30 years, depending on the subject, the estimated profit, level of assumed business risk, demand for construction at an early phase and demand for market development in the field of the concession.

The concession procedure is described in Chapter Eight.

The concessionary must establish a company registered in the Republic of Serbia within 60 days from the date of the Concession Agreement.

For arbitration of disputes, a foreign concessionaire may choose international arbitration, as long as the subject matter of the dispute is not real estate.

The Canadian Dundee Precious Metals has acquired several long term concessions in a field of exploration and exploitation of metals, whilst in the infrastructure sector the race for PPP over a highway Horgos-Pozega (North Serbia towards the South-West Serbia) is pending between several foreign companies.



Banking, Finance, Leasing and Insurance

Investor Considerations

Banking sector undergoing major restructuring and privatisation
 Financial markets not yet developed
 Insurance sector under supervision of NBS started restructuring
 Leasing sector under supervision of NBS

Banking and Finance

The banking system of Serbia consists of the central bank i.e. the NBS, commercial banks and other financial organisations.

The founding, organisation, business activities and governing of banks are regulated by the new banking law introduced in December 2005. This law shall be in full application as of 1 October 2006. The application of this law and how it covers the work of banks is explained and regulated in more detail by ongoing decisions of the NBS.

Domestic and foreign legal entities and natural persons may be founders of a bank in Serbia. Serbian regulations do not envisage the establishment of a foreign bank's branch office without legal entity status.

At the moment, green field licences are not granted by the NBS. Hence entrance into the Serbian banking market is only possible through an acquisition.

According to the law, a bank must be established in the form of a joint stock company. The NBS is authorised to supervise the activities of commercial banks and to issue or revoke operating licences for commercial banks in Serbia. The operating licence is issued within 30 days by the NBS following the issue of the preliminary approval (90 days) and filing of the request for issuing of this licence. The NBS will estimate whether the legal conditions have been met and whether the foundation of the bank is economically justified.

The initial capital of the bank can be contribution in both money and goods, which must be evaluated by an authorised person. The monetary portion of the share capital of the bank must be a minimum of EUR 10,000,000 in CSD counter value. If the financial contribution is less than prescribed, the founders must increase the initial capital to EUR 10,000,000 within one year from the inscription of the bank in the BRA .

Application for inscription of the bank into the BRA must be submitted within 30 days of authorisation being issued by the NBS.

Banking Regulations

The New Banking Law introduces new items and compiles previous NBS decisions. Significant characteristics of the new banking law are:

- New foundation procedures
- Stronger role (ultimate) of the NBS as a regulatory and supervising authority
- Lower shareholding threshold approval requirement
- Corporate Governance
- Supervision on Consolidated basis
- Merger Control
- Definitions and Management of Risks
- Definition of Credit

The Banking Law prescribes the following minimum capital requirement:

1. The monetary portion of the share capital in CSD equivalent should always amount to at least EUR 10 million, calculated at the daily average exchange rate.
2. A minimum capital adequacy ratio of 12 percent has to be retained, calculated as the ratio of the bank's capital to its risk-weighted assets.
3. Large exposure of a bank means exposure of the bank to a single person or a group of related persons amounting to at least 10 percent of the bank's capital.
4. The largest exposure of a single borrower is restricted to 25 percent of capital
5. The largest exposure of an affiliated borrower is restricted to 5 percent of capital.
6. Aggregate exposure of the bank to persons related to the bank may not exceed 20 percent of the Bank's capital
7. Total of all large exposures of a bank, which may not be less than 400 percent nor more than 800 percent of the bank's capital.
8. Total foreign exchange risk position is restricted to 30 percent of capital.
9. Investment of a bank in a single non-financial sector person must not exceed 10 percent of the bank's capital.
10. Permanent investments in (in the capital of legal entities and fixed assets) are restricted to under 60 percent of capital.
11. Banks to have the stock of gross household dinar lending at the end of each calendar month lower than or equal to 200 percent of the value of their share capital.

Compliance with these ratios is supervised by the NBS on a quarterly basis.

The Liquidity ratio is monitored by the banks on a daily basis and any lack of conformity has to be reported to the NBS within the next two working days.

The ratio between the sum of liquid first and second-class receivables¹ and the sum of liabilities with or without contracted maturity must be as follows:

- at least 1.0, calculated as the average of all working days in the month,
- at least 0.8, calculated for a single working day,
- is not lower than 0.9 for longer than three consecutive working days.

These regulations are similar to the Basel I regulations and might be adjusted in the future to Basel II regulations.

The NBS may determine a higher capital adequacy ratio than that prescribed for a bank (12 percent).

Banks that do not meet capital adequacy criteria are divided into three groups:

1. Undercapitalized bank
2. Significantly undercapitalized bank
3. Critically undercapitalized bank

Special measures for undercapitalized banks and significantly undercapitalized banks are imposed by NBS.

More restrictive supervision of a bank on a consolidated basis includes the following requirements:

- The Bank must submit an annual report to NBS regarding the evaluation of its risk management and internal control.
- An appointed external auditor needs to be approved by NBS by the end of September
- The external auditor shall prepare a report as to whether the annual financial statement of the bank on consolidated basis has been composed in compliance with the IFRS and regulations of the NBS.
- The external auditor shall report regarding an evaluation of the Bank's risk management and internal control.

More favourable conditions cannot apply to a Related Party. Related Party transactions are allowed only after written approval of the Board of Directors, except for accepting deposits, granting loans collateralized by deposits and granting loans collateralized by Government securities.

National Bank of Serbia

The role of the NBS is regulated by the Constitution and the Law on the NBS (enacted in 2003 and amended in 2004). NBS is an autonomous institution.

In accordance with the Law, the NBS is authorised to perform the following functions:

1. Determine and implement monetary policy;
2. Autonomously pursue the dinar exchange rate policy and determine the dinar exchange regime with the consent of the Government;

¹ first class receivables are cash and other receivables due within a month
second class receivables are those which will become due in the month from the date of account

3. Hold and manage foreign currency reserves;
4. Issue banknotes and coins;
5. Regulate, control and promote unhindered functioning of internal and external payment operations;
6. Issue and revoke operating licenses, carry out supervision of banks and other financial institutions and enact regulations in this field;
 - Issue and revoke licenses i.e. authorization for carrying out the insurance operations, perform control i.e. supervision over such operations and also carry out other duties in line with legal regulation governing the field of insurance
7. Perform statutory tasks for the Republic of Serbia
8. Perform other tasks provided for by this and other laws in accordance with the principles of central banking

The NBS co-operates with the Serbian Government and other state institutions in order to execute its functions. The Republic of Serbia guarantees all the NBS's liabilities.

Serving as a banking, insurance and leasing supervisor, the NBS controls financial positions and the legality of operations conducted by banks and other financial organisations and at the same time it regulates the enforcement of financial discipline in the banking system as a whole. The NBS also provides for the minimum scope of auditing and the minimum audit report content for banks and other financial organisations.

Foreign exchange operations are regulated by the new Law on Foreign Exchange Operations introduced in 2006 and decisions of NBS that were passed in relation to that new law.

Reform Process of the Banking Sector

With the reform of the banking sector presently underway, structural and liquidity problems are expected to be resolved in forthcoming years. Among the goals are:

1. restoring public confidence in the banking sector,
2. creating sustainable and profitable banks,
3. fast and cost-effective restructuring,
4. providing financial resources for the official sector based on market principles,
5. increasing the involvement of foreign financial institutions,
6. privatisation of banks
7. compliance with banking regulations with EU directives and Basel accord
8. addressing cash-flow problems

The institution responsible for the process is the Deposit and Insurance Agency (formally known as BRA).

The privatisation process of banks in Serbia is almost complete. It was facilitated by the following facts:

1. due to the London and Paris Club issue (see below) the State of Serbia has become the major shareholder in several banks
2. green field licences are no longer granted by the NBS
3. entrance into the Serbian banking market is therefore only possible through an acquisition
4. the privatisation of state owned banks is done by the BRA.

Privatisation started in 2004 with BNP Paribas acting as financial advisor to the BRA. The banks have been sold to foreign partners: Alpha Bank – Greece (Jubanka a.d.), Nova Ljubalijanska Banka (Continental Bank a.d.) Erste Bank – Austria (Novosadska Bank a.d.) and OTP Bank- Hungary (Niska banka). The tender for Vojvodjanska Banka (to be sold to NBG) and Panonska banka (to be sold to San Paolo) will be finalised by end of 2006. Sales of other majority state owned banks (Credy Banka and Cacanska Banka) are expected by the end of 2007.

Privatisation of the largest bank, Komercijalna Banka (no. 4 in total asset by March 2006), in which the state is the biggest shareholder, is unlikely to take place in the next few years.

EBRD recently became a significant shareholder with a 25 percent stake in Komercijalna and Cacanska Banka

As a general rule, each acquisition of a bank's voting shares in excess of 5 percent of the bank's equity capital, as well as each increase over 5 percent, is subject to prior approval from the NBS and to be reported to NBS within 15 days.

Banks in Serbia

As at March 2006, 39 registered banking institutions, with total assets amounting to EUR 9.7 billion, operate on the Serbian market. Additionally, a number of banks under liquidation or rehabilitation still exist. Banking sector operations are concentrated in the top five largest banks, which account for over 50 percent of the market in terms of assets.

The Serbian banking market is still characterized by large number of commercial banks with most of them being very small and which have difficulties to compete with foreign banks. A large number of private banks have been successful in finding foreign partners such as Delta (Banca Intesa – Italy), Meridian (Credit Agricole – France), Atlas (Piraeus Bank – Greece), Nova Banka (Findomestic Banca – Italy), Centrobanka (Laiki group – Cyprus), Kulska and Zepter banka (OTP – Hungary), Nacionalna stedioncia (EFG Eurobank – Greece). Other banks are in the process of finding foreign partners or merging with other local banks.

Banking institutions in Serbia may be broadly grouped into the following categories:

1. Foreign banks - 19 (Raiffeisenbank, Hypo Alpe-Adria-Bank, Societe Generale, HVB bank, ProCredit banka, LHB bank, National Bank of Greece, Volksbank, Alpha Bank A.E., EFG Eurobank, Piraeus Bank, Credit Agricole, Banca Intesa, Findomestic banca, Erste bank, Laiki Bank, OTP Bank and San Paolo).
2. Banks in state ownership - 11 (which will be reduced)
3. Small and medium sized banks - 9 (Significant in number but marginal as aggregate assets base; the majority of them are looking for potential strategic partners)

There were significant changes in positions since subsidiaries of foreign banks succeeded to expand market presence and became market leaders. The share of banks in majority ownership of foreign entities as of March 2006 is 73 percent of total assets (2005: 43 percent). On the other hand, the majority of state banks witnessed a decline in assets from 50 percent in 2004 to an expected 16 percent by the end of 2006. The major changes of the mounting competition are a gradual reduction of interest rates, risk for the banking sector crisis decline, and improved management, as well as the very strict supervision by the NBS. The NBS is imposing very restrictive monetary measures (increased foreign obligatory reserves to 60 percents) in lending activities (mostly retail) in order to control inflation.

The remarkable structural change in the sector resulted in the commercial bank in Serbia turning a profit in 2005. Also, loans activities increased in 2005 over 47 percent (EUR 5 billion) comparing to 2004 and deposits base increased by 66 percent to EUR 6.7 billion. Significant expansion of branch network. Number of units reached 1,908 at the end first quarter of 2006 (2005: 1,867).

Banking Products

The Serbian banking system has yet to reach western standards in the scope and quality of its services and capital market operations. The following types of operation are currently available:

- Deposit operations (acceptance of all kinds of deposits),
- Credit operations,
- Foreign exchange and foreign currency transactions,
- Issuing operations (issue of securities and credit cards),
- Treasury operations (money market foreign exchange),
- Custody operations (safekeeping and handling securities),
- Stock exchange related operations (purchase and sale of securities),
- Guarantee operations (extending warranties, guarantees, endorsements)
- Documentary operations
- Cash management
- Intermediation i.e. assuming the role of a broker in trading in securities,
- Purchasing and collection of claims,
- Other financial services,
- External payment operations and external loan operations, both of which are subject to special licences, issued in line with the federal law on foreign exchange operations.
- E-banking

The availability of banking services is not consistent throughout the country, with the highest concentration of banking facilities and services being in Belgrade.

The financial instruments market is currently undeveloped. It is expected to expand in the near future.

Capital Market

Belgrade has a stock exchange and a money market, but these institutions are still small and underdeveloped. Market trade in securities is conducted on the Belgrade Stock Exchange Market (Belex) through authorised stock market intermediaries (brokers) who are members of the Central Registry and Depository of Securities.

Trading in bonds on the stock exchange became more significant after the Law on the meeting of obligations on account of foreign currency savings of citizens regulating the settlement of liabilities arising from the frozen foreign currency savings of citizens came into effect as of 4 July 2002, amended 2004 and 2005. This law regulates the mandatory conversion of foreign currency savings deposits into the bonds issued by the Republic of Serbia, according to the depositor's place of residence and the amount of savings in question. The state bonds envisaged in the Law were issued on 19 August 2002 with the total value being EUR 4,200 million.

Old savings bonds

The conversion of frozen foreign currency savings deposits into the state bonds was carried out either by the respective banks where the frozen foreign currency savings had been deposited, or by the National Savings Bank. The procedure is relatively simple: the banks calculate 2 percent interest on the savings deposits starting from the conversion date (19 August 2002), and at the same time convert the amount into EUR, applying the exchange rate prevailing on that date. The amount in EUR is entered into the state bonds due in the period between 2002 and 2016.

Each converted savings deposit is entered into the savings book of the deposit holder. Also, each holder receives a Certificate of Conversion of his savings deposits into republican bonds. Along with the Certificate, the holder has a securities' account opened in his name with the Central Registry of Securities (CRS). The holder's account is opened as a sub-account of his bank's CRS account. The conversion is carried out for each individual savings account, whereas if a deposit holder has several savings accounts, one Certificate is issued for the total sum of converted savings deposits, meaning for all deposits of one deposit holder.

Main Characteristics of the State Bonds

All issues are transferable, dematerialised bonds (in electronic form). The A series of these bonds are due annually on 31 May, between 2003 and 2016. The remaining part of the obligations due to frozen foreign currency deposit holders will be effected in 12 monthly instalments, applying the 10 percent geometric progression growth rate (Series B). These instalments are subject to fixed date maturity on 31 May each successive year, starting from 2005 through to 2016, and the rates referred to in article 4 of the Law.

In line with article 14 of the Law, the original holder of such bonds¹ may use the bonds prior to their maturity date, subject to a 2 percent discount in order to cover certain personal costs or costs incurred by members of his/her immediate family (spouse, parents, children, siblings). The costs at issue are those relating to procurement of medicines, orthopaedic aids, health bills incurred in the country and abroad, burial costs or costs relating to transportation of a deceased family member's body from abroad.

In order to cover such costs using the state bonds, an applicant must submit an application along with the original documentation to the bank with which their securities account has been opened.

Also, securities may be used prior to their maturity in order to purchase the following:

- shares in enterprises currently in the process of privatisation;
- shares in licensed banks
- apartments, living quarters, office facilities, land and other currently state-owned real estate.

Distribution of and trading in securities

The new Serbian Law on Securities and Other Financial Instruments Market was adopted in June 2006, but will enter into force on 10 December 2006. The Law regulates three main fields: the process of distribution of and trading in securities, the activities of authorised participants on the market and the role of the Securities Exchange Commission.

Issuing of new shares through public offering

The process is initiated by publishing a public announcement and prospectus on issue of new shares, followed by a series of actions required for subscribing and paying for the shares and obtaining authorisation on the issue of shares from the SEC. It ends with the transfer of shares to the securities account of the new owner.

Trade in securities through the stock exchange

The new solutions presented by the Law comprise of systematic amendments to the existing structure of the organized market by its separation from the stock exchange market and out of the stock market. Trade in securities on the stock exchange can be performed only through broker-dealer companies or authorised banks.

Authorised participants on the organized market

Authorised participants on the organized market are the broker-dealer companies, authorised banks and Custody Banks. The Law provides the general framework for their foundation and operations, and rights and obligations. These issues are more closely regulated through the by-laws and rulebooks of the SEC.

Security exchange commission

The SEC has a crucial role and significant power. It is responsible for, among other things, the rules relating to the application of the Law, issuing licences and supervising the operations of authorised participants in the market, setting standards for registration of stock exchange trade operations, establishing the contents of mandatory information that is to be submitted to it and published, monitoring the state of and trends in the securities market and undertaking corrective action.

¹ meaning the savings deposit holder whose formerly frozen savings deposit had been converted into state securities

Insurance

The new insurance law, introduced in May 2004, entrusted the NBS with supervision of insurance companies. The result of the changes is increased control of insurance companies, which revealed many irregularities, and the revocation of the licences of 20 insurers. The number of insurance companies decreased from 38 in 2004 to 18 in 2006 due to more restrictive regulatory requirements introduced in 2005. All remaining companies licensed to operate in insurance business had to harmonize their activities in accordance with the new insurance law by May 2005.

Within its function, the NBS will carry out surveillance of insurance activity; issue licenses for performing insurance, reinsurance, intermediation and agency operations as well as those directly associated with insurance activity; give approval for legally required enactments and actions; adopt regulations prescribed by law; process statistical and other data, and consider complaints filed by the insured and other insurance beneficiaries.

NBS will focus their activities on further stabilisation and development of the insurance market through

- More strict supervision and transparent
- Insisting on strengthening the corporate governance
- Increased transparency of Insurance companies

The new Insurance Law divides the insurance business into life and non-life insurances, in line with EU directives. Insurance companies will not be able to perform both life and non-life insurance business within one legal entity.

Minimum capital requirements were also increased, depending on the activity performed by the company: EUR 1 million – accident and voluntary health insurance, EUR 2 million – life insurance and other property insurance, accident and voluntary health insurance, EUR 2.5 million – motor vehicles insurance – full coverage, railway vehicles and obligatory traffic liability insurance; EUR 3 million – voluntary superannuation insurance and EUR 4.5 million – re-insurance operations.

Two major companies (DDOR, Novi Sad and Dunav Osiguranje) account for around 74 percent of non-life insurance premiums, which points to the high concentration on this segment of the market and 68 percent of the total market. 90 agencies have been licensed to act as brokers on the market.

The local insurance market remains relatively under-developed and needs more structural changes. The total earned premium for non-life insurance is 90.7 percent and life premium is 9.3 percent. Insurance products such as life, health, real estate, remain highly underdeveloped. The barrier against faster increase of the market is the low level of available income in the country and the fact that clients are still not accustomed to using insurance services. However, growth in household income, expectations for robust economic development and the growing financial market are expected to result in expansion of the insurance market.

The process of insurance market consolidation has started. Several foreign investors have entered into the market. There are currently four insurance companies in which foreign companies hold majority stakes: Grawe (life, other property and accident insurance), Wiener Stadische Osiguranje (life, compulsory, other property and accident insurance), Generali Delta and Zepter (acquired by Uniqa).

The BRA launched the privatisation of DDOR Osiguranje by publishing a tender for privatisation. It is expected that the tender process will be finished by the end of 2006. Also, restructuring of the largest insurance company, Dunav Osiguranje, has been initiated by issuing a tender for the advisor to BRA. Dunav is not envisaged to be privatised for at least three years.

The insurance market in FY05 is characterised by the following major trends:

- The total premium for the Serbian general insurance market has reached in 2005 to EUR 379 million, representing almost 91 percent of the total market. Premiums from life insurance have increased by 96 percent in 2005 compared to 2004 reaching EUR 38.5 million.
- The life insurance segment reached 9.5 percent of the total insurance market premium in 2005
- The Property insurance sector traditionally holds the largest share of GPI (33 percent in FY05), followed by MTPL with 31 percent. The fastest annual growth in the group of non life insurance was MTPL insurance (104 percent)
- The profitability margin of the insurance sector increased from 1.5 percent to 4.73 percent in 2005.

Leasing

In May 2003, the Law on Financial Leasing was introduced, which defines financial leasing and basic rights and liabilities of participants in financial lease operations. Subject to the Law on Amendments and Supplements to the Financial Leasing Law (RS Official Gazette, no. 61/2005), the NBS was entrusted with supervision of financial lessors' operations. This law further stipulates that the NBS is the institution in charge of issuing financial leasing licences, and approvals of appointment of financial lessors' managing bodies, as well as being in charge of taking corrective measures in respect of lessors if supervision reveals illegalities and irregularities in their operations. The NBS also enacts secondary legislation as provided in the Financial Leasing Law, whereby it regulates more closely the operations of financial lessors.

The principal objectives of the supervision of financial lessors are:

- strengthening public confidence in the financial sector and leasing,
- ensuring financial market transparency,
- financial market development based on fair competition,
- consumer protection and education,
- efficient implementation of consolidated supervision of financial sector participants.

The following requirements are imposed to the companies which are to be engaged in financial leasing:

- a company incorporated in conformity with the law governing the legal status of companies,
- a company whose paid-in share capital is at least EUR 100,000 in the dinar equivalent value at the median rate of exchange of the NBS on the date of payment, and
- a company that has been issued a license to engage in financial leasing by the NBS.

As at March 2006, 15 registered leasing companies with total assets amounting to EUR 647 million operate on the Serbian market. The 13 leasing companies are in direct or indirect ownership of foreign investors and two companies are in domestic ownership.

Four major leasing companies comprises 77 percent of the total market as of March 2006 (2005: 77 percent)

Corporate customers participate with 75 percent of the total leasing portfolio. Also, the structure shows that 65 percent of leasing contacts were from motor vehicle and equipment leasing makes up 35 percent as of 2005.

During 2006 NBS imposed new Decision with regulates regular monthly and quarterly reporting to NBS by leasing companies.



Exporting/Importing

The main principles of foreign trade in Serbia are set by the Law on Foreign Trade Operations ("Official Gazette of RS", No. 101/2005, the Law). This Law, which supersedes the previous one, has been in force since 29 November 2005 and regulates foreign trade in a more liberal way by abolishing many restrictions and administrative requirements that existed previously.

The Law deals with the export and import of goods, national treatment, quantitative limitations and permits, special conditions for performing foreign trade operations, safeguard measures (anti-dumping, cases of excessive import etc.), temporary regimes and related measures.

Trading with foreign goods abroad i.e. without importing them into Serbia is possible for Serbian entities without Governmental approval. The only administrative requirement is that a report should be submitted to the Ministry for International Economic Relations after the trade is executed.

Due to the fact that both Serbia and Montenegro recently became independent states, Serbian foreign trade and customs regulations are fully applicable on foreign trade between the two states.

According to the existing regulations and practice, it is not possible for a foreign entity to participate in Serbian customs procedure as a declarant, unless it has at least one permanent establishment in Serbia.

Exporting

Export is defined in the Law as a dispatch i.e. delivery of goods from Serbia to the territory of another state, in accordance with Serbian customs regulations. It is clear that customs rules must be adhered to when carrying out export operations.

Export (including re-export operations) is stimulated through various incentives available to exporting entities (exemptions from duties on raw material that is processed in Serbia, more efficient VAT refund procedure etc.).

If payment for exported goods or services is received after a certain deadline, the transaction is considered to be a loan provided abroad, which therefore has to be registered with the Serbian Central Bank. This deadline, counting from the day when the export is performed, is increased to 180 days according to the new Law on Foreign Exchange Operations ("Official Gazette of RS", No. 101/2005).

Importing

Entrance of goods i.e. delivery on the territory of Serbia from the territory of another state is considered as import and should be performed in accordance with customs regulations. This means, amongst others, that received goods should be declared for free circulation. However, this general rule has exceptions in cases when goods, although paid and delivered into Serbia, do not have to be imported if declared for one of the special customs procedures (e.g. bonded warehousing, inward processing etc.).

The flow of goods designated for import is tracked by Serbian Customs from the point of entry into Serbia (when they are reported at the border crossing) to an inland customs office where they should be declared for one of the allowed customs procedures. Customs supervision generally ends when goods are customs cleared and import duties are paid.

Until now, Serbian Customs have focused their control on goods during importation procedures. However, they intend to shift the focus of this control to the post-importation period (five years following import) in order to speed up the importation process and to be better prepared for the control on the basis of an on going risk analysis.

Advance payment abroad with delivery terms of longer than 180 days counting from the execution of payment is considered to be a loan provided abroad and has to be registered with the Serbian Central Bank.

Mein export productus in million USD

| | |
|---------------------------|-----|
| Iron and Steel | 620 |
| Non-ferous Metals | 366 |
| Fuit and Vegetable | 263 |
| Clothing | 246 |
| Various Consumer Products | 219 |

Source: Statistical Office the Republic of Serbia

Mein import productus in million USD

| | |
|----------------------|------|
| Oil and Derivates | 1391 |
| Road Vehicles | 692 |
| Industrial Machinery | 506 |
| Natural Gas | 417 |
| Iron and Steel | 410 |

Source: Statistical Office the Republic of Serbia

Serbian foerign trade by region

| | 2004 | | 2005 | |
|--------------------------|--------|--------|--------|--------|
| | Export | Import | Export | Import |
| EU cuuntries | 51.40% | 54.20% | 53.60% | 49.60% |
| Other European countries | 43.30% | 29.00% | 41.10% | 33.50% |
| Others | 5.30% | 16.80% | 5.30% | 16.90% |

Source: Statistical Office the Republic of Serbia

Mein export partners in million USD

| | |
|--------------------|-----|
| BiH | 748 |
| Italy | 657 |
| Germany | 446 |
| Macedonia | 263 |
| Russian Federation | 228 |

Source: Statistical Office the Republic of Serbia

Mein import partners in million USD

| | |
|--------------------|------|
| Russian Federation | 1674 |
| Germany | 1092 |
| Italy | 909 |
| China | 509 |
| USA | 379 |

Source: Statistical Office the Republic of Serbia

Legal System

Investor Considerations

Choice of domestic and foreign law
Arbitration respected by domestic courts

Legal Framework

Serbia has a civil law system: the courts interpret legislation instead of considering preceding rulings on the issue (the former being the case in other continental European countries and the latter – the common law system – in Great Britain, Ireland and the USA).

The Parliament is the supreme legislator. Certain bodies with executive powers, such as the government and ministries, are competent to pass decrees and by-laws in specific areas. Decrees and by-laws must be in compliance with parliamentary legislation. Legislative acts, decrees and by-laws come into force after publication in the Official Gazette of Serbia.

The most significant laws regulating business are:

- The Company Law
- The Law of Contracts and Torts
- A body of laws regulating tax issues
- A body of laws regulating privatisation
- The Litigation Procedural Law
- The Mediation Law
- The Law on Arbitration
- The Law on Administration procedure
- The Law on Administration disputes
- The Labour Law
- A body of laws regulating organisation and functioning of the judicial system
- The Law on the Elements of Property Law Relations

Court System

The new Law on the Organisation of Courts, enacted in 2001, regulates the organisation of the court system in Serbia. Nevertheless, the provisions of the old Law on Courts regulating jurisdiction of courts shall remain in force until 2007, and the provisions of the new Law shall be applied thereafter.

The court system consists of *the constitutional court*, *courts of general jurisdiction* and courts of *special jurisdiction*. The courts of general jurisdiction are the following: the Supreme Court, appellate courts, county/district courts and municipal courts. The courts of specific jurisdiction are the following: commercial courts, Higher Commercial Court and Administrative Court.

The Supreme Court is the highest court in Serbia and acts as the court of second instance to the Higher Commercial Court and the Administrative Court. It is the final court of appeal for all decisions that do not relate to constitutional issues.

Appellate courts are the new institutions introduced by the Law on Organisation of Courts in 2001. They are to be second instance courts to municipal courts and county/district courts. The formation of appellate courts is postponed until 2007.

County/district courts are established to cover the territory of a county/district. In some matters, they are courts of second instance to municipal courts, or act as courts of first instance.

Municipal courts are usually courts of first instance and are established to cover one or more municipalities. For example, there are five municipal courts in Belgrade, covering 11 municipalities. The jurisdiction of municipal courts covers all matters not relating to commercial issues.

Commercial courts adjudicate commercial matters and *The Higher Commercial Court* is the second instance court for these matters.

The Administrative Court is a new institution introduced by the Law on Organisation of Courts in 2001 for adjudicating in administrative matters. Formation of an Administrative Court is postponed until 2007.

The Constitutional Court of Serbia has the authority to rule on the legality and constitutionality of laws enacted by the Parliaments and of government and executive actions. The Court is entitled to order the repeal of laws, with or without retroactive effect. The Court may be accessed directly by anyone, but cases are usually brought to the Court through a lower court or during the legislative process.

Legal Profession

The legal profession is generally organised as individual practices and small firms. Some individual practitioners and firms/offices specialise in particular areas of law. The presence of international firms is expected in the near future.

According to the Advocacy Law, only bar members may provide legal services, which is why foreign law firms may not establish law offices. Instead, they create companies for consulting services and hire local attorneys at law, on the basis of a service agreement, to provide services to their clients. Limited partnership law firms are not permitted to be created, either. These are all reasons why foreign law firms are reluctant to enter this market. The New Law on Advocacy is now in progress.

Lawsuits/Arbitration

Any party bringing a lawsuit is required to pay court tax at the time it is filed. In general, the duty is levied in relation to the amount claimed, but cannot exceed a certain sum. A charge is levied on rulings as well. Apart from these, there are likely to be other costs, such as costs of evidence, witness fees and the remuneration of lawyers. As part of the final judgment, the court decides which party is to bear the costs and to what extent. Generally, the losing party bears all costs, including the costs of the other party.

Since it may take several years to receive a final judgement, many business entities opt for arbitration, providing for it in their contracts. There is also a Foreign Trade Court of Arbitration at the Serbian Chamber of Commerce in Belgrade. It is international, general (all conflicts arising from international business relations are considered), open (domestic and foreign citizens are on its list), independent and autonomous. Its judgments are final. Specific rules of procedure can be agreed between the parties and specialist arbitrators can be chosen. The United Nations Commission on International Trade Law (UNCITRAL) book of rules may be applied.

Serbia is signatory to all significant international arbitration conventions including the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, the European Convention on International Commercial Arbitration and the Washington Convention on Settlement of Investment Disputes.

The Law on Arbitration

The new Law on Arbitration (the Law) was adopted in May 2006. The Law is the first piece of legislation in Serbia fully regulating the field of arbitration. The Law is based on the UNCITRAL Model Law, thus accepting internationally recognized rules and principles in this field.

The Law regulates in particular the following issues:

- Arbitral agreement;
- Arbitral tribunal;
- Arbitrators;
- Competence of arbitral tribunal;
- Procedure before an arbitral tribunal;
- Arbitral decision;
- Annulment of arbitral decision;
- Recognition and enforcement of arbitral decision.

Choice of Law and Jurisdiction/Foreign Judgements

If one of the contracting parties is a foreign national, the Serbian Law on Resolving Conflict of Laws with Regulations of Other Countries (LRCL) allows the contracting parties to choose a foreign law to be applied to their contract. Parties may also agree that any conflict arising out of their contract shall be resolved before a foreign court of arbitration. In a case where the contracting parties have no specific agreement on the issue, the governing law and competent court shall be determined as it is prescribed by the LRCL.

Foreign judgements or arbitration awards are recognised and enforced unless the subject is a matter exclusively under the jurisdiction of domestic courts or is contrary to public policy.



Business Entities

Investor Considerations

Representative offices, branches limited liability and joint stock companies permitted
The Agency for Registration of Business Entities is in charge of the registration of companies

Forms of Business Entities

The new Company Law (the Law) was enacted and came into force in November 2004.
This Law regulates the setting up and operation of businesses in a much more market orientated manner than the previous Law on Enterprises did.

All companies in Serbia must adjust their internal acts and organisation in accordance with this Law until November 2006.

Foreign investors may establish a company in the form of:

- Partnerships: General Partnerships (o.d), Limited Partnerships (k.d)
- Associations of capital: Limited Liability Company (d.o.o), Joint-Stock Company (a.d)

In addition to the above, a foreign company may set up a branch or representative office in Serbia.

Business entities in Serbia include:

| | |
|-----------------------------------|--|
| GENERAL PARTNERSHIP (o.d) | <p>Members: Two or more legal or natural persons</p> <p>Investment: No requirements for minimum/maximum contribution. Contribution can be not only money, property and rights, but labour or services as well.</p> <p>Characteristics: All partners bear unlimited liability for the obligations of the partnership.</p> |
| LIMITED PARTNERSHIP (k.d) | <p>Members: Two or more legal or natural persons</p> <p>Investment: No requirements for minimum/maximum contribution. Contribution of the limited partner may not only be money, property or rights, but labour or services too.</p> <p>Characteristics: At least one member (the general partner) bears unlimited liability for the obligations of the partnership and the liability of at least one member (the limited partner) is restricted to the value of his equity. Both the general partner and limited partner may be either a natural person or a legal entity.</p> |
| LIMITED LIABILITY COMPANY (d.o.o) | <p>Members: 1 to 50 (natural person or legal entity)</p> <p>Investment: Minimum CSD equivalent of EUR 500 for the pecuniary part of the initial capital; there are no requirements in respect of the minimum contribution of each member. A minimum of 50 percent of the initial capital must be paid before incorporation and the remaining 50 percent must be paid in within two years of incorporation. Equity may not be expressed in shares. The investments in a limited liability company may be not only money, property or rights, but also labour and services. This only includes the services performed and not those to be performed in the future.</p> <p>Characteristics: The liability of members is up to the value of their investment. The bodies of the LLC are: general meeting of shareholders composed of founders and a managing director or a board of directors. An LLC may, but is not obliged to, have an internal auditor, audit committee or a supervisory board. The owner of an LLC may perform the duties of the managing director and general meeting in a one-man limited liability company.</p> |

JOINT STOCK COMPANY (a.d)

Members: One or more natural persons or legal entities formed simultaneously (buying all shares through incorporation), two or more for companies formed successively (issue of a prospectus intended for third parties). The maximum number of shareholders in a closed a.d. is 100. An a.d. having more than 100 shareholders is deemed an open a.d.

Investment: Initial capital is divided into shares of specific value. The minimum CSD equivalent of EUR 10,000 is the minimum initial capital for a closed a.d. and of EUR 25,000 for an open a.d. The minimum par value of a share cannot be lower than the amount obtained by rounding up EUR 5 to the highest number divisible by ten in CSD counter value, according to the middle exchange rate on the day of applying for inscription of the company, i.e. on the day of applying for change of an incorporated company capital. A minimum of 50 percent of the founding capital of each shareholder must be paid before incorporation and the remaining 50 percent has to be paid in within two years of incorporation. The contribution of members may be money, property or rights but not labour or services.

Characteristics: The bodies of the a.d. are: general meeting of shareholders, managing director, board of directors and supervisory board (obligatory for a.d. rated at the stock market and a.d. performing a business activity prescribed by a separate law).

Limited Liability Company (LLC) compared to Joint Stock Company (JSC)

In practice, foreign investors usually prefer to incorporate an LLC, because of its simple form and faster incorporation. Its advantages include the following:

- Increase in capital may be made without supervision by the Securities Exchange Commission
- Minimum share capital is EUR 500 as opposed to EUR 10,000 for a closed a.d.

Branch of a Foreign Company

Unlike the previous Law on Enterprises, the Company Law provides the possibility of the establishment of a branch office in Serbia.

Registration of a Company

The registration of companies is administered by the Agency for Registration of Business Entities.

The process of registration of companies is regulated by:

1. The Law on Registration of Business Entities
2. The Law on the Agency for Registration of Business Entities

The Law requires the following entities/persons to apply for registration with the Agency:

1. Entrepreneurs
2. General Partnerships
3. Limited partnerships
4. Limited liability companies (d.o.o.)
5. Joint stock companies (a.d.)
6. Co-operatives and co-operative associations
7. Other companies required to register by Law.

The Register maintained by the Agency contains the following information about each registered body:

- Foundation details,
- Status changes and changes related to organisation,
- Information relevant for legal transactions,
- Information relating to bankruptcy proceedings,
- Other information required by law.

The Law on Registration of Business Entities requires that an annual financial report is submitted, in accordance with the Law on Accounting and Auditing. This requirement came into effect on 1 January 2006.

Registration Fee

The registration fee varies depending on the type of entity/person applying for registration, and the type of data to be registered.

Other registers kept by the Agency

The Agency is responsible for keeping the following legal registers:

1. The register of companies
2. The register of pledges over movables and rights (to become operational by the end of August 2005)
3. The register of financial leasing
4. Other registers established by Law.

Joint ventures and strategic partnerships

There are no restrictions on joint ventures and strategic partnerships. The choice depends on the terms established by the contractual parties. The amount of the investment and the percentage of share ownership are set out in a Memorandum of Association.

Generally, local partners will seek a partner who can:

- Preserve or extend their market position,
- Provide financing (e.g. resolve liquidity and local financing problems),
- Leverage international brand power,
- Provide know how.

A strategic alliance can be negotiated under normal contract rules.

Representative office

The basic provision regulating the Representative Offices in Serbia is the Decree on registration of the representative offices of foreign entities into the Registry of Companies kept with the Business Registers Agency. This Decree was adopted at the end of 2005 and is governed on the basis of the new Serbian Law on Foreign Trade Operations.

A foreign individual or entity may open a representative office in Serbia. The representative office is deemed an integral part of the concerned foreign person and, therefore, does not have the status of a legal person, but is obliged to operate in conformity with all national regulations.

The representative office performs operations on the instructions given by the Founder(s).

The representative office is established to survey the commercial, financial, banking, and insurance segments of the market, as well as to perform the preliminary and preparatory operations to the execution of contracts, and to represent the foreign entity engaged in such transactions.

To register the representative office, the Founder should apply with the official request and the necessary documents for the registration. The application is to be made to the BRA.

The process of registration should usually take up to ten days from the moment of full and complete application to the BRA.

Branch

The Company Law of November 2004 for the first time prescribes the possibility of opening a branch by a domestic or foreign business entity.

The Branch is considered to be an integral part of a business entity (company), and is not a separate legal entity. The Branch performs business activities in the name and for the account of the founder company. The branch office is incorporated upon the decision of the founder company and must be inscribed in the Registry of Companies.

The registration of the Branch is done at the Agency for Registration of Business Entities.

The following documents are required for Registration:

- Decision on Foundation of the Branch;
- Decision on Appointment of a Responsible Person;
- Certified signature of the responsible person;
- Certificate of incorporation of the founder company issued by the relevant institution (e.g. Commercial Court or Chamber of Commerce) with sworn translation;
- Proof of numbers of bank accounts through which the founder company is doing business;
- Certified statement of the founder taking responsibility for all obligations which may arise in relation to the business activities of the branch, with sworn translation.



Regulatory Environment

Investor Considerations

New Law on competition has been adopted
 Environmental legislation to be enacted
 Law on financial leasing adopted but financial leasing registry still not operational
 BOT system (build–operate–transfer) is recognised by the Law on concessions
 New Law on Patents has been adopted
 New Law on Planning and Construction adopted
 New Law on Banks adopted
 New Law on Takeover of Joint Stock Companies adopted
 New Law on Securities and Other Financial Instruments adopted
 Law on Denationalisation still pending

Competition Law

A new Law on Competition was adopted in September 2005, replacing the existing 1996 Anti-Monopoly Law.

The Law applies to antitrust provisions, including restrictive agreements and abuses of dominant positions. The new Law now makes a differentiation between horizontal (agreement operating on the same production/supply level) and vertical agreements restricting competition, mergers and concentration among market participants.

The Law creates an independent competition body: the Commission for the Protection of Competition (the Commission).

The Law, which is generally in compliance with EU requirements, covers any instrument, e.g. agreements, contracts, explicit or tacit agreements etc. Any such instrument designed to have or having the effect of preventing, restricting or distorting competition on the relevant market is null and void.

A participant has a dominant position in the relevant market if it has the power to behave independently of other undertakings, thus being in a position to make business decisions without taking into account the effect on competitors, purchasers or suppliers and/or final users of its goods and/or services.

A participant having a market share exceeding 40 percent may or may not be considered dominant, depending on the market share of competitors, barriers to entry and the economic strength of potential competitor(s), as well as the eventual dominant position of the buyer. A participant having a market share below 40 percent may also be considered to be dominant.

The Commission

The Commission is organized as an independent body. The Commission is responsible to the Serbian Parliament.

Conclusions

A major concern relates to the notification threshold for mergers (combined total annual turnover on the Serbian market exceeds EUR 10 million, and combined total annual turnover on the international market exceeds EUR 50 million), i.e. it is felt that merger notification should be set high enough that the Commission will review only cases that have a genuine possibility to decrease competition. It is necessary to focus on transactions that represent serious competition concerns.

Further to this the Serbian Parliament has adopted the bylaws, regulating the Competition Law in more detail:

1. Decree on criterion for determination of the relevant market,
2. Decree on contents and manner of filing a request for permission to carry out 'concentrations'.

Acquisitions

Acquisitions of limited liability and joint stock companies are treated differently.

Stakes in limited liability companies are subject to direct transfer. This means that stakes can be transferred between contracting parties by signing Share Purchase Agreements or otherwise. The specific legal requirements relate to the right of first refusal of other stake owners in the company.

Acquisitions of shares in joint stock companies are subject to the Company Law and the Law on Takeover of Joint Stock Companies

Acquisitions can be effected either through the purchase of shares in a capital increase procedure (new release of shares), a takeover bid, or the purchase of shares on the Stock Exchange.

The Law introduces new rules regarding the takeover of open joint stock companies, the conditions and procedure for the takeover, rights and obligations of participants in the takeover procedure and supervision over the takeover of joint stock companies, all in compliance with EU criteria.

The Law directly defines the notion of “concerted action”.

The first definition states that the persons (legal or physical) are considered to be acting jointly if they agree, by an agreement (oral or in writing), explicitly or implicitly, to combine the activities in order to acquire the shares of specific company. The mere agreement for concerted activity is made equal with acquisition of voting shares in the company.

The situation where one person holds the shares in the name of the other person is also considered to be concerted activity.

The application of the Law is mandatory when a natural person or a business entity intends to acquire 25 percent or more shares with voting rights in an open joint stock company in Serbia, whose shares have been traded on the organized market for the last three months prior to the publication of the takeover intention. A major change introduced by the Law is the rule that minority shareholders have the same treatment as majority shareowners (in terms of voting rights) as well as the new position of the Board of Directors in the process of the takeover.

Pursuant to all the above, the Law introduces the obligatory takeover bid (acquisition of 25 percent or more of shares), voluntary takeover bid (acquisition of less than 25 percent of shares), conditional takeover bid (acquisition of minimum number or percentage of shares), unconditional takeover bid, and counter bid (an offer made by any legal or natural person [the competitor] after the publication of the first takeover bid and within its validity period).

Moreover, when the business entity or natural person acquires at least 95 percent of the target company's share it is entitled to purchase shares of those shareholders who have not accepted the sale of shares in accordance with the takeover bid (forced sale) or to purchase 5 percent of the shares from other shareholders at their request, under the conditions set out in the takeover bid (forced purchase).

The minimum share price determined in a takeover bid cannot be lower than the average price of shares within three months prior to publication of the takeover intention, determined on the basis of reports on trade on an organized market.

Shareholders have to be notified in advance about the intention to takeover the company, before submitting the application to the Security Exchange Commission (the SEC).

A takeover bid is valid from 21 days to 45 days from the day of publishing the offer in daily newspapers.

The Law does not apply:

- when a joint stock company has to be sold by public auction,
- to shares that are acquired in the status changing of the Company,
- to shares that are owned by the Share Fund of the Republic of Serbia,
- to shares issued by a bank and owned by the Republic of Serbia (all in accordance with a decision of the Serbian Government) or Bank Rehabilitation Agency
- to transfer of shares within the Central Register of Securities
- in other cases prescribed by the Law.

The competent Authority in charge or body responsible for implementation of this Law is the SEC.

The Law derogates provisions from the previous Law on Securities regulating takeover bid.

The new Decree on Content and Form of Takeover Bids has been adopted.

New Law on Securities and Other Financial Instruments

The new Law on Market of Securities and Other Financial Instruments was adopted in May 2006, replacing the 2002 Law on Market Securities and Other Financial Instruments (old Law). This Law is harmonizing new regulations in Serbia with the financial market and international practice, principles and standards in relevant areas, introducing new solutions, set by the Serbian regulations.

The application of the Law will start six months after its enforcement (10 December 2006)

Within the period of six months, joint stock companies are obliged to submit data to the Central Securities Depository and Clearing House (Central Securities) concerning shareholders inscribed in the Shareholders Book and a request for registration of all issued shares which have not been withdrawn. If the shares are not registered in the Central Securities, they could not be disposed of i.e. they could not be sold. The shares issued in accordance with the old Law shall be considered to be issued by a public offer and their issuers are obliged to include them in the organized market within a period of three months following the application of this Law.

The new solutions presented by the Law comprise systematic amendments to the existing structure of the organized market by its separation into the stock exchange market and out of the stock market. Domestic as well as foreign legal entities and natural persons could be founders or owners of securities on the organized market, which is organized by the market organizer. The Securities Commission is a competent authority for issuing approval to the Market Organizer. The stock exchange market and out of stock market are equally organized, with the exception that on the stock exchange market, securities issued in accordance with the rules of the Central Securities are quotes, while on the out of stock market, securities issued only by a public offer, and not in accordance with the rules of the Central Securities, are traded.

The Law introduces a "qualified participation" on the market which is presented alternatively as either:

1. direct or indirect participation in another legal entity,
2. owning shares with voting or management rights
3. having at least 5 percent of the capital of another legal entity.

Subsequently, when a legal entity intends to acquire qualified participation in one company, it is obliged to inform the Securities Commission in order to get previous approval. This obligation does not refer to Shareholders who acquired shares of Broker-Dealer Company or the Stock Exchange Market until the enforcement of the Law.

This Law also regulates the concept of privilege information in a more detailed manner than the old one, in accordance with the Directive on preventing market manipulation. The procedure of issuing bonds and provisions refers to professional investors under the old and the new Law is essentially the same.

Consumer Protection

The New Law on Consumer Protection was adopted in September 2005, replacing the existing Federal Law on Consumer Protection from 2002.

Under the Law, the competent Authorities dealing with this area are the Serbian Ministry of Trade, Tourism and Services (the Ministry) and the Council for Consumer Protection (the Council) The Council will be created as an advisory body.

The Government of Serbia, supported by the Ministry and the Council, should adopt a National Program for Consumer Protection which is to be achieved through the annual protection program.

The Law prescribes the fundamental rights and protection of the Consumer's economic interests. It regulates, inter alia, provisions on water and air quality, issuing of invoices, warranty clauses, on - in commerce, consumer credits, packaging issues and time sharing.

The Law prohibits selling and serving spirits and cigarettes to those younger than 18 years old.

The Law allows for the in and out-of-court protection of the Consumer being the victim of the damage.

Finally, the Law regulates operations of a future consumer protection organization.

Pollution Control and Safety at Work

The area of environmental protection has been regulated so far by a large number of federal, republic and municipal regulations. However, the most relevant laws dealing with this issue in Serbia are the following:

- The Law on Elements of Environmental Protection of the Federal Republic of Yugoslavia sets down the basic principles, criteria and measures of environmental protection.
- The Law on Environmental Protection of the Republic of Serbia regulates environmental protection in more detail. It covers the following areas: system of protective measures and improvement of environment, protection of air, water, soil, forests and ecology, noise, ionising radiation and control of hazardous waste.

- The Law on Protection from Ionised Emissions
- The Law on Transport of Hazardous Materials

Apart from these Laws, there are many others relating to different areas of legislation, such as Company Law and others, which include provisions on environmental matters, including the Law on Water, the Law on Forests and the Law on Fishing.

At this stage, there is a common understanding that environmental laws need to be modernized in line with ratified international conventions and standards, as well as with EU requirements.

Competent authorities are often overlapping and there is a lack of national environmental strategy. There are certain substantial legal gaps in current regulations, meaning that some areas of environmental protection are not entirely covered by the law, for example, waste management, or provisions treating recycling.

The drafting process of environmental protection issues is currently pending, particularly the drafting of the new Draft Law on the System of Environmental Protection. The Competent Authority in Serbia is the Ministry of Science and Environmental Protection of Serbia.

Safety at work

The main regulation treating this area is the Law on Safety at Work.

Law on Financial Leasing

The Law on financial leasing was adopted in 2003 (amended in 2005) and defines financial leasing and specific contractual requirements. It outlines the rights and obligations of the parties, and creates a financial leasing registry, providing a solid ground for the development of leasing.

Financial lease arrangements consist of two documents:

- The supply contract between the Lessor and the Supplier; and
- The contract on financial leasing between the Lessor and Lessee.

The contract on financial leasing must be in writing and for a minimum period of two years. Mandatory elements of the contract include:

- Precise specification of the subject of the lease,
- Amount of the lease fee,
- Number of instalments, amount of each one, when due
- The length of the contract

Other elements of the contract may include the place, time and manner of delivery, title of ownership, insurance and purchase option, or contract extension option.

The Lessor must be a company registered to undertake activities of financial leasing, with the minimum basic capital of EUR 100,000. The Lessee may be any physical or legal person. The supplier cannot be the Lessor.

The Law introduces a financial leasing Registry, as a public register of all relevant data including a description of the leased good(s) and the parties to the agreement.

The NBS is the competent authority for issuing licences to the financial leasing companies and supervising financial leasing activities. The companies conducting financial leasing operations are also obliged to keep mandatory reserves and are not allowed to conduct any other business operation other than financial leasing (i.e. renting).

Law on Concessions

The Serbian Parliament adopted the Law on Concessions in May 2003, creating favourable conditions for obtaining and utilizing concession licences. The Law regulates the conditions and procedures for obtaining concessions (licence) for exploitation of natural resources, property in the public domain and for conducting activities of general interest.

This Law recognises the BOT system (build–operate–transfer) as a special form of concession.

The object of a concession can be such things as:

- Mining of all kinds of mineral raw materials,
- Water management facilities,
- All forms of transport facilities and related infrastructure and equipment
- Telecommunication facilities,
- Oil and gas pipelines,
- Public utilities,

- Public health services
- Sports and recreational facilities
- Thermal water springs, spas, and tourist infrastructure facilities

A concession can be granted for a maximum period of 30 years, taking into consideration the degree of operating risk, construction needs and the requirement for competitive development of the business concerned. A shorter or longer concession period may be stipulated in the light of unanticipated changes.

Concession Procedure

A proposal for granting a concession is submitted to the Serbian Government by the ministry in charge of the particular field, the authorised body of an autonomous province or the authorised local government body. The interested party submits the initiative for such a proposal. The ministry in charge drafts a Concession Act and submits it to the Government.

Concessions are granted through public tender. Invitations to tender are announced in the *Official Gazette of the Republic of Serbia* and in at least one Serbian daily paper. For larger public works, the tender must be also published in international newspapers. The process is conducted by the Tender Commission, which submits a report to the Government after carrying out the tender procedure. Tenders must meet all the requirements that are prescribed in the tender programme. The Decision on determining the concessionaire is adopted by the Serbian Government within 30 days of receipt of the report. The authorised Committee of the Serbian Parliament verifies the governmental Decision. The Serbian Government adopts the Concession Act and it is announced in the *Official Gazette of the Republic of Serbia*.

The Concession Act contains the following elements:

1. The object of concession,
2. The duration of concession,
3. The method of granting concession (criteria for selecting the best offer, the amount and method of paying the deposit for participation in the public tender),
4. The basic elements of the announcement published in the *Official Gazette of the Republic of Serbia*,
5. The conditions that the concessionary must fulfil,
6. The conditions and method of conducting the concession activities,
7. The conditions prescribed by the environmental, occupational safety and health protection laws,
8. The type and amount of guarantees for conducting the concession activities,
9. The method of paying the concession fee,
10. Other elements relevant for regulating the rights and obligations of the interested parties.

If only one candidate participates in a tender, the Commission can either propose that the Government grants the concession to that candidate or can decide to repeat the tender process.

All the terms of the concession must be defined in a Concession Agreement, concluded between the concessionaire and the Serbian Government or, if it involves provision of local community services, between the concessionaire and the local authority. The Concession Agreement must be in line with the Concession Programme and with the formal requirements of the Concession Law, and must be concluded within 60 days of effective determination of a concessionaire.

The concessionaire may, with government or local authority approval, transfer the concession to a third party, providing this can be done in accordance with the conditions prescribed by the concession agreement.

Law on Telecommunications

The Serbian Law on Telecommunications was enacted on 5 May 2003 (amended 2006), providing legal ground to further develop and encourage competition in this sector. The Law introduced principles for granting licences for telecommunication activities and created an independent regulatory body with a wide range of responsibilities. It also defined, for the first time within Serbian legislation, the notion of universal services e.g. basic services that are to be provided to all users at an affordable price. The deregulation process has started and, based on the Law, the liberalisation process of the fixed telephone line market was scheduled to happen in 2005.

Under the provisions of the Law, the Telecommunications Agency, i.e. Ratel, was created as an independent regulatory body. The Agency has a very significant and widely determinate role in application of the Law on Telecommunications and control of the telecommunications market. Beside other competencies, the Agency participates in decision making processes, and passes Approval for the use of frequencies, as well as for conducting specific telecommunications operations. The Agency is entitled to control the market in the field of telecommunications, in order to prevent a monopoly of the operators and to take measures for restoring a free market in a situation where a monopoly is established.

The intention of the Law is to regulate the issues referring to the start of the process of elimination of monopolies and monopolistic behaviour, regulation and control of telecommunications service tariffs under the conditions of a limited market, and to increase the quality of services and introduce new services to this market.

Intellectual Property (IP) Rights Protection- Patents, Trademarks, Copyrights

All existing IP laws were enacted during the last decade and are generally in compliance with international standards. The main issues remain the implementation of the IP laws and a better trained and organised judicial system.

The laws dedicated to the protection of IP rights are as follows:

- The Law on Copyright and related rights 2004
- The Law on Protection of Topographies of Integrated Circuits 2004
- The Law on Patents, adopted on 2 July 2004
- The Law on Trademarks, adopted on 22 December 2004
- The Law on legal protection of design 2004
- The Law on Geographical Indications 2006
- The Decree on keeping the records of work of authorship and subject of related rights 2005
- The Law on Special Powers for Efficient Intellectual Property Rights Protections 2006

The most important IP conventions relating to IP protection are ratified by the Serbia i.e. Berne Conventions, Paris Conventions, European Patent Convention, Madrid and Nice Arrangements and others.

The authority dealing with IP protection is the Intellectual Property Office of Serbia.

Law on Patents

Foreign natural and legal persons enjoy the same rights with respect to the protection of inventions as national natural and legal persons where such treatment derives from international agreements or from the principle of reciprocity.

The duration of a patent is twenty years from the date of the submission of the application.

Law on Copyright and related rights

Copyright covers authorship of a range of products: written works (books, brochures, articles) spoken works (lectures, speeches, orations); dramatic and choreographic works, works of music, films, fine art (paintings, drawings, sketches, graphics, sculptures); works of architecture, applied art and industrial design; geographic and topographic maps, drawings, sketches, photographs and computer programs.

An author enjoys both moral and material rights with regard to his/her work of authorship. The material rights last for the author's life and 70 years after death, while moral rights last after the expiration of the material rights. The law also defines affiliated rights and their duration i.e. manufacturer of a data base, interpretation of author act, rights of employees making the innovations etc.

Law on Trademarks

The Law set up terms and conditions for the acquisition and protection of trademarks. It is prescribed that the trademark, with some exceptions, may be the object in various agreements such as: agreement on licensing, agreement of franchising, agreement on transferring of rights. These agreements must be registered within the relevant register of trademarks. In accordance with the Law, trademarks may be pledged before a competent court as a security. The initial period of protection of a trademark registered under this Law is ten years, and may be renewed upon the payment of additional fees.

Land Ownership

Law on Planning and Construction

A new Law on Planning and Construction (the Law) was adopted in May 2003 and was amended during 2006.

The Law defines construction land as land designated for construction or for services supplied for construction. Construction land is divided into two categories:

- Public Construction Land
- Other Construction Land.

All construction land is owned exclusively by the state, whereas constructions on the land may be the property of a natural or a legal person. The reason for exclusive state ownership of construction land appears to be to enable state control of construction and urbanization plans in urban areas. Consequently, for instance, if a user of state-owned construction land fails to construct a building within a prescribed period of time, his right of use may cease.

Public Construction Land is the land on which a building of general/public interest is built or planned to be built. Construction land may be used either as built or non-built.

Other Construction Land is land that is either built upon or planned for the construction of a building. Other Construction Land may be in all forms of ownership and the right of use of other construction land is transferable. A lawful owner of the construction built on Other Construction Land has right of use of the land on which the building stands. Transfer of property rights on the construction (building) implies the transfer of the right of use/lease of the land on which it stands.

Other Construction Land is divided into two categories: undeveloped (non-built) and developed (built). If owned by the state, Other Construction Land may be leased on the basis of public auction or tender, but only for construction purposes. Municipalities define procedures, requirements and leasing programmes.

Right to build

A building is lawfully constructed if a permit to build has been issued. The permit is issued on the basis of technical documentation submitted by the applicant. The documentation consists of the following: general design, preliminary design, main design, working design and the project of constructed building.

Municipalities are authorised to issue permits to build. The Ministry of Capital Investment, in charge of construction matters, is authorised to decide on the permit application in cases prescribed by the Law, such as nuclear plants, oil and gas production/processing industry, hydroelectric power stations, airports, traffic infrastructure etc.

Prior to use, the owner of the construction shall apply for and obtain the relevant permit.

New legislation on denationalisation should be enacted

The Law on Denationalisation has not been adopted. This Law is crucial to resolving issues of land ownership and restitution. According to the Draft Law, denationalisation will not adversely affect owners who have purchased buildings or land. According to the Law on application for restitution of deprived property approximately 500.000 applications has been submitted to the Serbian Government with requests of the previous owners for restitution of their deprived property.

The Law on Mortgages

The Law on Mortgages was adopted in December 2005.

This important Law introduces several new features, including those regarding objects which may be mortgaged, a fast-track enforcement procedure and the establishment of the Central Registry of Mortgages.

The Law on Mortgages introduces a mortgage:

1. on the right over land which incorporates the right of disposition and
2. over objects where construction is still in progress.

A mortgage may be arranged on the basis of a mortgage contract. A mortgage contract should be concluded in writing and certified by the court or another authorised body. It should have all of the necessary elements prescribed by the law.

A mortgage may also be arranged on the basis of a unilateral statement which corresponds to the mortgage contract in terms of form and content.

If the mortgage contract or unilateral statement is in accordance with the Law on Mortgages and contains all elements prescribed by a special provision of the Law, it is considered to be a certificate of enforcement and may lead to extra-judicial enforcement. If the contract on the mortgage and the unilateral statement do not contain these elements, they may only lead to standard judicial enforcement procedures.

After a debt has matured, the mortgage creditor and the owner of the immovable may conclude a "subsequent contract" and stipulate:

1. the transfer of rights of property of the immovable under mortgage or
2. any other transaction which leads to deletion of the mortgage.

The Law on Mortgage regulates an extra-judicial enforcement procedure i.e. the fast-track enforcement procedure. Step one is a first warning, issued by the mortgage creditor upon maturity of the debt.

If the debtor does not pay the debt within 30 days, the creditor issues a warning to sell the immovable. If the debtor still refuses to pay, the creditor may sell the immovable under mortgage by auction or direct negotiation. The seller may organise an auction by itself or involve a professional to do this.

When the immovable is sold by direct negotiation, the price should approximate the market value. The creditor may sell the immovable or involve a lawyer or a real-estate agency. In the process of extra-judicial enforcement, the police are obliged to provide help to the mortgage creditor.

The Law on Mortgage established the Central Registry of Mortgages (the Registry). Data from the register will be accessible via the Internet.



Labour Relations and Social Security

Investor Considerations

The labour law is attentive to both the social and economic aspects of employment
 Few restrictions on expatriate employees
 Educated workforce
 Salaries rising continuously
 Changes in Social Security regulations

Labour Relations

Availability of Labour

The Serbian labour force is skilled and well trained, particularly those under 45 years of age. It is also still relatively inexpensive, although this is likely to change as salary expectations rise, especially with employers who are foreign investors.

At the moment, as a consequence of the crises during the past decade, the unemployment rate is high. According to the last available data, published in the May edition of the Monthly Statistics Bulletin issued by the Agency for Employment, the registered unemployment rate is 27.95 percent. Accurate statistics on unemployment are difficult to obtain, as a significant proportion of the population works in the grey economy.

Legislation in force

Serbian Labour Law, enacted in March 2005, regulates rights, obligations and liabilities of employers and employees. The Law applies on all employment relations except those in state institutions, where there is a specific regime established by the Law on State Officials.

The Labour Law was drafted in such a way as to comply with EU standards and recommendations of the International Employment Organisation. The Law in general does not privilege either employers or employees and it enhances the functioning of the labour market.

Collective agreements

The Labour Law does not regulate many issues in detail, but leaves them to be regulated by collective agreements (CA). These issues commonly relate to the scope of employees' rights, such as leave, rewards etc. CA and any other general act of an employer must be in compliance with the Law. Collective agreements are negotiated and signed between the employer and trade union representatives and may be changed only by the consent of both parties. The Law regulates in more detail conditions for setting up of associations of employers and trade unions, criteria for determining a representative association/union and their rights, methods of resolution of disputes during negotiations and in the process of implementation of a CA and the like.

According to the Law, there are three types of CA:

- A General CA is concluded for a complete sector of the economy and is valid on the territory of the Republic,
- A Special CA is concluded covering the territory of a unit of local government or territorial autonomy,
- A CA at the Employer is concluded within a company. The Law does not stipulate the obligation to have a CA, but stipulates the obligation to negotiate a CA. Larger companies usually do have a CA.

The Law prescribes that in specific cases, which most commonly relate to situations of failure to successfully negotiate a CA, the employer regulates the issues which are subject of a CA by an Employment Rulebook, adopted by the Board of Directors or a General Manager in companies without a Board of Directors. The Employment Rulebook is in force until a CA is adopted.

Labour relations

General work ability assumes that an employee is over 15 years of age. Special requirements may be determined at the discretion of the employer, depending on the type of job. Any special requirement must not be in conflict with anti-discriminatory clauses.

The labour relationship is established by a contract concluded between an employer and an employee. An employment contract may be concluded for:

- An indefinite period of time,
- A definite period of time (up to 12 months and only in the following cases: seasonal works, work on a specific project of temporary increase of volume of work),

The following are special types of engagement which do not lead constitute an employment relationship:

- Agreement on performance of temporary and occasional jobs (up to 120 days a year and may only be concluded with the following persons: unemployed, pension beneficiaries, part-time employees, members of student/youth organisations under 30 years of age),
- Service Agreement
- Agreement on Representation and Intermediation
- Agreement on Vocational Training

The Law also contains specific provisions in the following cases:

- Work involving high risk,
- Work outside the offices of the employer,
- Household assistance
- Work with reduced working time
- Work during a trial period (which cannot exceed three months),
- Work of trainees

Working Conditions

Working Hours

Full time employment may range between 36 and 40 hours a week, upon the decision of the employer.

Overtime cannot exceed four hours a day and eight hours a week.

Working time may be redistributed upon the employer's decision, but the sum of working hours after six months cannot exceed the sum of working hours as if an employee worked full time.

Wages and Salaries

Employees are to be paid the same for equivalent work, or for the same value of work, with the same employer.

The minimum salary is determined by the Social Economic Committee following the criteria prescribed by the Law.

Minimum net salary in January-June 2006 was 46 CSD (cca. 0.54 EUR) per working hour.

According to the Law, base salary has to be defined in the employment contract. An employee is entitled to increase salary on the basis of overtime, work at night, work during holidays, work in shifts and to an increase of 0.4 percent for each year of employment. In the case of sick leave, an employee is entitled to 65 percent of his average salary over the period of three months preceding the month of sick leave.

Annual Leave and Paid Leave

The minimum break during the working day is 30 minutes. The break between consecutive working days is 12 hours and the weekend break is 24 hours. The minimum annual vacation is 20 days. Paid leave in other cases, as prescribed by the Law, is limited to a maximum of seven days during a calendar year.

Termination of employment

Employment may be terminated in the following ways:

- Independently by a decision of either employer or employee;
- By mutual agreement of employer and employee.

The employer's decision must be justifiable.

The employer may terminate an employment contract if any of the conditions below apply:

- Work output below satisfactory level,
- Knowledge and skills for specific position inadequate,
- Violation of working obligations,
- Misuse of the right to sick leave,
- Failure to observe disciplinary code of work,

- Failure to return to work within 15 days after the expiry of the deadline for unpaid leave,
- Perpetration of a criminal act at work or in relation to work,
- Failure of an employee to sign an addenda to employment agreement in accordance with the Law
- Redundancy, when there is no longer a need for a certain position, because of changed technological or economic requirements. In this case, an employment contract may be terminated only if the employee cannot be retrained or found another position within the employing organisation. Adoption of a Redundancy Programme is the obligation of the employers if employment is to be terminated:
 - For minimum 10 employees out of 20 -100 employees within 30 days
 - For minimum 10 percent of employees out of 100 - 300 employees within 30 days
 - For minimum 30 employees out of over 300 employees within 30 days
 - For minimum 20 employees regardless of the total number of employees within 90 days

The employer is obliged to pay redundancy compensation to the employee.

Other issues

The employer is obliged, under the current Law, to provide employees with and secure funds for their education and training, if so is required by the working processes, and the introduction of new methods and organisation of work.

A Solidarity Fund is set up by the current Law as a public service, from which employees are entitled to require payment of unpaid salaries and other mature payments in case of bankruptcy of their employer.

Social Security

There have been changes in social security regulations, introduced by several amendments to the existing laws and adoption of several new laws. The main changes are introduced in the amendments to the Law on Pension and Disability Insurance

The Serbian Parliament has adopted the amendments to the Law on Pension and Disability Insurance, providing for a semi-annual harmonisation of pensions with wages and the cost of living. Pensions will be reviewed every year in April and October, and in the next four years they will be adjusted in accordance with the previous six-month increases in wages and the cost of living. Starting from 2006, the lowest pensions will be raised to equal 25 percent of Serbia's average wage in the preceding year, and in the following three years pensions will not be lower than 60 percent of the average wage. Amendments also stipulate that from 2008 to January 2012 the age limit for retirement should be increased to 60 years for women and 65 for men and at least 15 years of service. The second and third conditions for acquiring the right to a pension remain the same i.e. (2) men with 40 years of service and women with 35 years of service and at least 53 years of age and (3) 45 years of service.

Visas and Work Permits

Business trips

Business visas

A business visa (not a residence/work permit) is required for foreigners coming to Serbia for business purposes (e.g. meetings) and for expatriates who intend to be employed by corporate entities registered locally. Business visas are issued by the Diplomatic and Consular Departments of Serbia and Montenegro (Embassies).

In practice, the immigration authorities permit business visitors to enter the country without a business visa. It is probable that the basis is that, effective as of 31 May 2003, citizens of the following countries do not require visas when entering and staying in Serbia and Montenegro for non-business purposes for up to 90 days:

Andorra, Australia, Austria, Belgium, Canada, Croatia, Cyprus, The Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Iceland, Ireland, Israel, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, New Zealand, Norway, Poland, Portugal, The Netherlands, San Marino, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, the USA and the Vatican.

Concessions

There is no nationality that will encounter unusual difficulties entering the country for business purposes, nor will any enjoy favourable treatment.

Expatriates Coming to Work in Serbia

Expatriates employed by or seconded to corporate entities registered locally are required to have residence or business permits. The procedure for obtaining the relevant permits is as detailed below.

Application for a White Card

As soon as an expatriate enters the country (**within 24 hours**), they are required to register with the Ministry of the Interior at the Municipal Police Station:

- When staying in a hotel, an expatriate will automatically be registered by that hotel
- When renting an apartment or staying with someone, the landlord/host should accompany the expatriate to the Municipal Police Station and start the registration process (obtaining the so-called White Card)

Application for residence or business permit

Within three days of arrival in the country, the applicant must apply for a residence or business permit with the Police Office for Expatriates. The following documents are required at that time:

1. Application form
2. Valid passport
3. Registration of the apartment where the foreigner is staying ("The White Card") issued by the Municipal Police Station

After the request has been submitted, it takes a month for the Police Office for Expatriates to bring a decision on the expatriate's eligibility for a permit. Within this period, the applicant is required to complete the documentation, (see below).

A residence/business permit is usually issued by the Police Office within about three days after the decision is brought.

The permit is usually issued for six months.

Business permit or residence permit

Certain people are eligible for a business permit. If this is not the case, a residence permit is required.

Business Permit

Expatriates with the right to a business permit are:

1. The Company's Founders (shareholders)
2. Directors of companies with foreign shareholders, as stated in the Decision from the Agency for Registration of Business Entities
3. Directors of (foreign) representative offices
4. Directors of (foreign) banks, (foreign) banks' representative offices, (foreign) insurance companies, and (foreign) insurance companies' representative offices

The documentation required is:

1. Valid passport
2. Registration of the apartment where the foreigner is staying (the White Card) issued by the Municipal Police Station
3. Two photographs (dimensions 40 mm x 30 mm)
4. The Decision from the Agency for Registration of Business Entities showing up-to-date statutory information about the Company. If the entity is a Representative office, similar information from the Federal Ministry of International Economic Relations stating the changes
5. Proof of possession of 3,500 EUR in Serbia (confirmation from a local bank)
6. Confirmation on Company's Tax Identification Number
7. Extract from Register of VAT Taxpayers

Residence Permit

To obtain a residence permit, an expatriate should submit the following documents to the Police Office for expatriates:

1. Valid passport
2. Registration of the apartment where the foreigner is staying ("The White Card") issued by the Municipal Police Station
3. Two photographs (dimensions 40 mm x 30 mm)
4. Employment contract (in the Serbian language, stating that employment is starting after obtaining residence in Serbia)
5. The Decision from the Agency for Registration of Business Entities showing up-to-date statutory information about the Company changes. If the entity is a Representative office, similar up-to-date information from the Federal Ministry of International Economic Relations.
6. Confirmation on Company's Tax Identification Number
7. Extract from Register of VAT Taxpayers

Work permit

After obtaining their residence / business permit, the expatriate needs a work permit.

The following documents should be submitted to the Labour Authorities of Serbia and the process usually takes about seven days:

1. Application form
2. Company Explanation of the need for this profile of employee
3. Extract (copy) from a valid passport (pages with photograph and approved residence / business permit)
4. Form E1 - "Application for available job position" registered with the Labour Authorities prior to submitting the application for the work permit.

Renewal

Once the initial six months expires, an expatriate has the right to renew their business/residence and work permit. The renewal process takes approximately two weeks.

Other requirements

Academic certificates

Not necessary.

Police clearance

Yes. For the residence/business permit.

Separate application for family members

A separate application is required for each family member. The necessary documents are:

1. Valid passport(s)
2. Registration of the apartment where the foreigner is staying ("The White Card") issued by the Municipal Police Station (for each family member)
3. Marriage certificate (for the spouse) and birth certificate (for each child)
4. Translation from the original of marriage and birth certificates, certified by a court translator
5. Two photographs for every applicant (dimensions 40 mm x 30 mm)

Spouse's work rights

If the spouse of a work-permit holder wishes to work during their stay in Serbia, a separate residence/work permit is necessary.

Personal presence at the relevant Authorities

Expatriates are required to be present personally in the Police Office only when submitting the application for the residence/business permit for the first time.

Penalties for non-compliance

The penalty for any non-compliance is a fine.

Accounting Practices and Audit Requirements

Investor Considerations

The new Law on accounting and auditing requires application of IAS/IFRS for medium and large legal entities.

Legal framework:

- The Law on Accounting and Audit, adopted in June 2006.
- The Rules on Chart of Accounts for Enterprises, Cooperatives, Entrepreneurs and other Legal Entities, adopted in May 2004, in force as of 2004 and amended in 2005
- The Rules on the Format and Contents of Items in the Forms of Financial Statements for Enterprises, Cooperatives, Entrepreneurs and other Legal Entities, in force as of 2004 and amended in 2005
- The Rules on Chart of Accounts and Content of Accounts within Chart of Accounts for Banks and Other Financial Organizations, in force as of 2003 and amended in 2004 and 2005
- The Rules on the Format and Contents of Items in the Forms of Financial Statements for Banks and other Financial Organizations, in force as of 2004 and amended in 2005
- The Rules on the Chart of Accounts and Content of Accounts within the Chart of Accounts for Insurance Companies, in force as of 2005.
- The Rules on the Format and Content of Items in the Forms of Financial Statements for Insurance Companies, in force as of 2005.

The Law on Accounting and Auditing

The new Law on Accounting and Audit was adopted on 2 June 2006.

The criteria for company classification are crucial for determining the implications of the new Law on Accounting and Audit.

Classification Criteria

| Company Size | Criteria for Classification |
|---------------|---|
| Medium | 1) Average number of employees: 50-250; 2) Annual total income: EUR 2.5 – 10million in CSD equivalent; 3) Average assets value: EUR 1 – 5million in CSD equivalent. |
| Small | If the value of at least two criteria is lower than those for Medium. |
| Large | If the value of at least two criteria is higher than those for Medium. Banks, insurance companies, stock exchanges and stock brokers are considered as large legal entities. |

IAS/IFRS

In accordance with the Law on Accounting and Auditing, International Accounting Standards and International Financial Reporting Standards (IFRS) are obligatory for large and medium legal entities. For small entities, accounting principals will be defined by the Ministry of Finance. This is effective as of June 2006

The application of the IFRS was also regulated by the previous accounting law issued as of December 2002. The practical application of the previous law has not been without challenge. Areas of practical difficulty surrounded:

- The lack of trained accountants in the industry who are familiar with IAS/IFRS
- Filing deadlines not relaxed in the first years of application of IAS/IFRS
- Subsequently issued regulations with permitted or required departures from IAS/IFRS resulting in inconsistencies and confusion
- Mandatory formats of primary financial statements which do not always permit all balances and transactions to be appropriately presented
- Application to all entities created a significant burden for small Companies without clear benefit

Annual Financial Statements

Annual financial statements should comprise:

1. Balance sheet,
2. Income statement,
3. Cash flow statement,
4. Statements of changes in equity,
5. Notes to the financial statements in accordance with IFRS/ IAS
6. Statistical annex

Submission of Financial Statements

Only annual financial statements must be prepared (as at 31 December), and they must be submitted to the NBS. The annual financial statements of an entity must be submitted by 28 February, consolidated financial statements by 30 April, and approved financial statements, together with the auditor's opinion, by 30 September (or 30 October for consolidated financial statements). In addition, all companies which require an audit (see below) must publish their financial statements, together with the auditor's opinion, e.g. on their website, by 30 September.

An exception to the rule (of preparing annual financial statements by 31 December) relates to subsidiaries of foreign companies whose financial year differs from the calendar year. They may prepare and submit financial statements coterminous with the financial year of their parent company. However, approval from the Ministry of Finance is required.

Another exception relates to entities undergoing a change of status e.g. merger, liquidation, and bankruptcy. Such entities are required to prepare financial statements by the date the procedure concerned is completed.

Audit Requirements

The audit of annual financial statements is obligatory for large and medium-sized parent companies, which are obliged to prepare consolidated financial statements, legal entities which are listed on the stock exchange or have securities listed.

Audit of financial statements is performed in accordance with the International Standards on Auditing and by certified auditors who are members of the Chamber of Auditors.

The New Law prescribed the foundation of the Chamber of Auditors i.e. the Chamber of Certified Public Accountants. This is expected to be established in the next months.

Rotation of the audit company is compulsory after five consecutive annual audits with the same legal entity. The audit company can be appointed for another five years with the same legal entity, unless stipulated by another law, if the certified auditor is rotated.

Chart of Accounts

Records must be kept in accordance with the prescribed Chart of Accounts. The released Charts of Accounts comprise accounts designed to provide proper classification of transactions to be recognized, measured and presented in accordance with IAS and IFRS for all of the above mentioned types of legal entities.

The legal entity appoints personnel for the storage and maintenance of the accounting books and preparation of financial statements. The legal entity is regulated by its own acts, qualifications, experience and other conditions for the personnel responsible for the storage and maintenance of accounting books and preparation of financial statements.

Requirements for Retention of Records

Salary records, which contain important information about employees, must be kept permanently; financial statements and audit reports for 20 years; the general ledger for ten years; and supporting documentation for five years.

Financial institutions are obliged to keep data on payment clearance for five years.

Taxation of Corporations

Investor Considerations

A low corporate tax rate of 10 percent
Various incentives

Corporate Income Tax

Taxation of corporations in Serbia is regulated by the Corporate Income Tax Law (last amended in 2004) and by subordinated bylaws issued by the Ministry of Finance.

Taxable Entities

A taxable entity includes a company registered as a joint stock company, a limited liability company, a general partnership, a limited partnership, a socially owned company, or a public enterprise, as well as a co-operative or any other legal entity generating income from the sale of goods or rendering its services on the market.

Residency

A legal entity is considered resident in Serbia if it is established or has its place of effective management and control in the territory of the Republic. Residents are taxed on their income generated on the territory of the Republic, as well as on worldwide income. Non-residents are taxed only on their income sourced through a permanent establishment on Serbian territory. A permanent establishment is any permanent place of business through which a non-resident conducts its business.

Tax Base

The tax base is taxable profit - determined by adjusting the accounting profit as stated in the profit and loss statement and determined in accordance with IFRS and accounting legislation, in accordance with the provisions of the Corporate Income Tax Law.

Significant tax adjustments include:

1. Expenses that are not recognised as expenses for corporate profit tax purposes:

- Expenses which cannot be documented;
- Bad debt provisions for individual receivables from persons that are creditors at the same time;
- Gifts and contributions to political organisations;
- Gifts and other advertising expenditures that are not documented, or if the recipient is an associated entity;
- Interest payable for the late payment of taxes, contributions and other public charges;
- Fines and penalties;
- Share in the profit paid to employees or other individuals;
- Expenses incurred other than for the purpose of conducting business activities;
- Expenses incurred on the basis of impairment of assets, except in the case of damage resulting from force majeure;
- Calculated and unpaid redundancy remuneration due to employees on the basis of retirement or termination of employment on other grounds.

2. Expenditure recognised for corporate profit tax purposes up to a certain amount:

- Depreciation computed in accordance with tax depreciation rules;
- Bad debt provisions, write-off of receivables and general provisions;
- Expenses for health care, scientific, educational, humanitarian, religious, ecological and sport-related purposes are tax-deductible up to 3.5 percent of total revenue;
- Expenses for cultural purposes are tax-deductible up to 1.5 percent of total revenue;
- Membership fees paid to chambers of commerce and other associations (except political parties) are deductible up to 0.1 percent of gross receipts;
- Advertising, promotional and business entertainment expenses are tax deductible up to 3 percent of total revenue.

3. Valuation of inventory

Cost of materials and the purchase value of merchandise are tax deductible up to the amount calculated by applying the average weighted cost method or FIFO method. If another method is used, an adjustment for tax purposes should be made.

4. Depreciation

According to the Corporate Income Tax Law, fixed assets are tangible and intangible assets of which the service life is longer than a year and the individual acquisition price at the time of acquisition was higher than the gross wage per employee in the Republic, according to the latest data published by the statistics authority of the Republic.

Fixed assets are divided into five groups, with depreciation rates prescribed for each as follows:

- 1) Group I : 2.5 percent;
- 2) Group II : 10 percent;
- 3) Group III : 15 percent;
- 4) Group IV : 20 percent;
- 5) Group V : 30 percent.

A straight-line depreciation method is prescribed for the first group. A declining balance method is prescribed for assets in other groups.

Detailed regulation of the division of fixed assets into groups, and the method of determining depreciation, is prescribed the special by-law issued by the Ministry of Finance.

5. Reserves and provisions

Provisions (indirect write-off) for bad and doubtful debts are tax deductible if at least 60 days have expired from the due date. Provision has to be made individually for each debt.

Write-off of individual debts, except for those from debtors which are at the same time creditors, are recognised as expenses under the following conditions:

- that related revenue has already been accrued,
- that they were written off as uncollectible,
- that evidence of the failure to collect debts through court orders is provided.

Long-term provisions are recognised for tax purposes if they are made for the renewal of natural resources, warranty period costs and retained caution money and deposits.

6. Adjustments to revenue

Generally, revenue established in accordance with IFRS and accounting legislation is recognised for tax purposes. Areas where adjustments are more likely include:

- income from related party debtors cannot be less than a market related amount;
- dividends and other income that constitute a share in the profit of residents are not included in the tax base if they are received from residents.

7. Introduction of IFRS

Income and expenses that represent the correction of a fundamental error or change in accounting policy, and are not reflected in the financial statements in the period in which they occurred, have no impact on the profit or loss of the current period. Such corrections will be made by amending the financial statements for the year in which the error or change in accounting policy occurred.

A fundamental error is an error defined in accordance with IFRS if it changes the profit or loss declared in the tax balance sheet by more than 2 percent.

Tax Incentives

In addition to a 10 percent corporate tax rate, the following tax incentives are provided in the Serbian taxation regime:

Tax Incentives

- Up to ten-year tax holidays for companies investing CSD 600 million (approximately 7,230,000 EUR) and employing at least 100 workers, in proportion to investment.
- Up to five-year tax holidays for companies investing CSD 6 million (approximately 72,000 EUR) and employing a minimum of five workers in underdeveloped regions, in proportion to investment.
- Accelerated depreciation is allowed for fixed assets (including computers) used for environmental protection, scientific research, education and training of staff. Accelerated depreciation is calculated by using rates that are up to 25 percent higher than prescribed rates.

Tax Credits

- Tax credit of 100 percent of gross salary increased by the social security contributions on behalf of employer for newly employed workers. This tax credit cannot be carried forward and is applicable only if such employment contributes to an increase of the total number of employees in the tax period.
- Tax credit of 20 percent (small enterprises 40 percent) for investment in fixed assets, up to 50 percent (small enterprises up to 70 percent) of corporate profit tax liability. Any unused tax credit can be carried forward for ten years. This tax credit can be carried forward for up to ten years.
- A taxpayer, classified in accordance with relevant legislation and registered for conducting business in one of the industries listed below, is granted a tax credit for 80 percent of its investment in its own fixed assets in the current year. There are no limitations related to taxable profit made by the taxpayer. This tax credit can be carried forward for up to ten years.
The industries to which this paragraph refers are:

- 01 - agriculture;
- 05 - fishing;
- 17 - manufacture of textile yarn and fabrics;
- 18 - manufacture of clothing, reprocessing and dyeing of leather
- 19 - processing and manufacture of leather
- 27 - production of basic metals;
- 28 - production of standard metal products;
- 29 - production of machines and devices;
- 30 - production of office machines and calculators;
- 31 - production of electric machines and devices;
- 32 - production of radio, TV and communication equipment;
- 33 - production of medical, optical and other precise instruments;
- 34 - production of motor vehicles and trailers;
- 35 - production of other traffic means;
- 37 - recycling;
- 92 - group 9211 - cinematographic and video production.

- A company generating profit in a newly established business unit of a Serbian company in an underdeveloped area has the right to decrease its tax liability, proportionally to the share of total profit attributable to the business unit over a period of two years. The newly established business unit must keep separate accounting records.

Carry Forward of Operational Losses

Operational losses can be carried forward for ten years.

Exemptions

- Special rules for tax exemption apply to non-profit organisations. Any surplus of income should not exceed the amount prescribed by law. This surplus is not allowed to be spent on wages or given to the founders. In addition, employee wages should not exceed double the average wage paid in the branch to which that non-profit organisation belongs;
- The tax liability for companies employing disabled persons is decreased in proportion to the percentage of such persons to the total number of employees;
- Profit earned on the basis of a concession is tax exempt for a period of five years.

Tax Rate

The corporate income tax rate is 10 percent.

This rate is also applicable to capital gains, but such gains are taxed separately from operating income.

Capital Gains and Losses

Capital gains may be generated by the sale or transferring in another way against compensation (sale) of:

- Real estate
- Industrial property rights
- Stocks, shares, securities and certain bonds

A capital gain is determined as the difference between the sale and purchase prices of the asset concerned, adjusted to the provisions of the Law. If the amount is negative, a capital loss results. Capital gains can be offset against capital losses occurring in the same period. A capital loss can be carried forward for ten years.

Capital gains are usually deferred following restructuring e.g. a merger or division. The tax liability arises subsequently when, for example, the new legal entity sells the property taken over. A similar deferment applies if the owner of a transformed company receives shares in a new company, as well as cash receipts that do not exceed 10 percent of the nominal value of shares or stakes obtained.

Tax Consolidation

Tax consolidation is allowed for a group of companies where all members are Serbian residents and one company directly or indirectly controls at least 75 percent of the shares in another company. Each company files its own tax balance sheet and the parent company files a consolidated tax balance sheet for the whole group. In a consolidated tax balance sheet, losses of one or more companies are offset by the profits of other related companies. Each company is liable to tax proportional to its share in the taxable profit of the whole group. Tax consolidation must continue for at least five years; otherwise each company will have to pay all taxes that it would have paid if there had not been any consolidation.

Inter-company Dividends

When a non-resident subsidiary company's dividends are included in the taxable base of its parent company, the resident parent company has the right to decrease its tax liability by taking credit for the withholding tax. The tax credit cannot exceed the amount of (corporate) tax that would have been paid in Serbia. Non-utilised tax credit can be carried over to the tax account of the parent enterprise for ten years. The parent company is required to own 25 percent of a non-resident subsidiary for at least one year before filing the tax return.

Thin Capitalisation

Thin capitalization is not regulated by a debt-equity ratio but by the arm's length principle. This principle says that the interest paid to a related entity cannot exceed the multiple of four times the value of the taxpayer's average share capital increased by reserves and:

- In the case of a loan in CSD: 110 percent of the interest rate charged by the NBS on the loans it grants to commercial banks as at 31 December of the previous year,
- In the case of a loan in a foreign currency: 110 percent of the interest rate charged by the central bank of the country whose currency is involved in loans it grants to commercial banks as at 31 December of the previous year.

Interest exceeding this amount (which is an arm's length interest rate) will not be recognised as an expense for tax purposes. Such interest can be carried forward and recognized as an expense in the tax balance sheet in the following year.

Transfer Pricing

The transfer price is taken to be the price of transactions between related parties. According to the Law, related parties exist if there is a possibility of control or influence on business decisions between them. Ownership of a majority of shares is considered as potential control. Influence on business decisions exists when an associated party holds more than 50 percent or individually greatest portion of votes in the taxpayer's management bodies. If the same persons participate in management or control of both companies, a connection between the companies will be deemed to exist.

A company must separate transactions with associated companies in the tax balance sheet and compare them with arm's length transactions. Any difference is included in taxable profit.

Comparable market prices are considered as arm's length prices. If use of comparable prices is not possible, cost plus usual margin or re-sale price method is used.

Avoiding Double Taxation

When profit generated in another country is taxed there, a company has the right to decrease its tax liability by claiming a tax credit. This tax credit is equal to the tax paid in the other country, but it cannot exceed the amount of tax that would have been paid in Serbia.

Withholding Taxes

Withholding tax at the rate of 20 percent is levied on certain payments to a non-resident (dividends, share in profit, royalties, interest, capital gains, lease payments for real estate and other assets).

The provisions of applicable double tax treaties regarding withholding tax will apply. However, the non-resident must prove residence of a state covered by such a treaty by submitting a valid residency certificate issued by that state.

Treaty Chart

Serbia continues to honour the double taxation treaties concluded by the former Yugoslavia (The Socialist Federal Republic of Yugoslavia, Federal Republic of Yugoslavia and the State Union of Serbia and Montenegro). The chart below shows the tax rates on dividends, interest and royalties.

| Country | Dividends ¹ | Interest | Royalties | Applicable from |
|--------------------------|------------------------|-------------------|-------------------|-----------------|
| Albania | 15/5 | 10 | 10 | 2006 |
| Belgium | 15/10 | 15 | 10 | 1982 |
| Belorussia | 15/5 | 8 | 10 | 1999 |
| Bosnia and Herzegovina | 10/5 | 10 | 10 | 2006 |
| Bulgaria | 15/5 | 10 | 10 | 2001 |
| China | 5 | 10 | 10 | 1998 |
| Croatia | 10/5 | 10 | 10 | 2005 |
| Cyprus | 10 | 10 | 10 | 1987 |
| Czech Republic | 10 | 10 | 10/5 | 2006 |
| Korea | 10 | 10 | 10 | 2002 |
| Denmark | 15/5 | 0 | 10 | 1983 |
| Egypt ² | 15/5 | 15 | 15 | 1989 |
| Finland | 15/5 | 0 | 10 | 1988 |
| France | 15/5 | 0 | 0 | 1976 |
| Ghana ³ | 15/5 | 10 | 10 | N/A |
| Germany | 15 | 0 | 10 | 1989 |
| Hungary | 15/5 | 10 | 10 | 2003 |
| Italy | 10 | 10 | 10 | 1986 |
| Iran ³ | 10 | 10 | 10 | N/A |
| Kuwait | 10/5 | 10 | 10 | 2004 |
| Latonia ⁴ | 10/5 | 10 | 10/5 ⁵ | N/A |
| Macedonia | 15/5 | 10 | 10 | 1998 |
| Malaysia | 0 ⁶ | 10 | 10 | 1991 |
| Moldova ⁴ | 15/5 | 10 | 10 | N/A |
| Netherlands | 15/5 | 0 | 10 | 1983 |
| Norway | 15 | 0 | 10 | 1986 |
| Poland | 15/5 | 10 | 10 | 1999 |
| Romania | 10 | 10 | 10 | 1998 |
| Russia | 15/5 | 10 | 10 | 1998 |
| Slovak Republic | 15/5 | 10 | 10 | 2002 |
| Slovenia | 10/5 | 10 | 10/5 ⁷ | 2004 |
| Sri Lanka | 12.5 | 10 | 10 | 1987 |
| Sweden | 15/5 | 0 | 0 | 1982 |
| Switzerland ⁴ | 15/5 | 10 | 10 | N/A |
| Turkey ⁴ | 15/5 | 10 | 10 | N/A |
| Ukraine | 10/5 | 10/0 ⁸ | 10 | 2002 |
| United Kingdom | 15/5 | 10 | 10 | 1983 |
| Zimbabwe ³ | 15/5 | 10 | 10 | N/A |

Assessment and Collection

The tax year in Serbia is the calendar year. Tax returns and tax balance sheets with all necessary documents (e.g. tax depreciation and tax credit forms) must be filed with the tax authorities by 10 March of the following year. A newly established company needs to register with the tax authorities within fifteen days of registration with the court.

The amount of tax payable is determined on the basis of a company's tax return for the previous year.

Corporate profit tax is payable in monthly advance instalments by the 15th of the following month. The difference between the monthly advance instalments paid during the year and final tax liability as determined in the tax return is payable on submission of the tax return.

Fines and Penalties

A taxpayer will be fined between CSD 100,000 (approximately EUR 1,200) and 600,000 (approximately EUR 7,200) if he does not:

- 1) Calculate and pay withholding tax
- 2) Submit documentation required by the Law
- 3) Pay monthly advance payments or final corporate profit tax liability, etc.

The individual accountant responsible will be fined between CSD 2,500 (approximately EUR 30) and 20,000 (approximately EUR 240).

¹ If the recipient company owns/controls at least 25 percent of the equity of the paying company, the lower of the two rates applies.

² A new double taxation treaty was signed with Egypt in 2005, but it is not applicable yet. Meanwhile, the old treaty is still applicable.

³ The other treaty country did not send official notification on the ratification of the treaty.

⁴ The contract was signed, ratified, and should become applicable after the exchange of ratification instruments by the signatories.

⁵ A tax rate of 5 percent will be applicable to literary, scientific and work of art, films and works created like films or, other sources of reproduction tone or picture. A tax rate of 10 percent will be applicable to: patents, petty patents, brands, models and samples, technical innovations, secret formulas or technical procedure.

⁶ Only in cases when dividends are to be paid to Serbian residents. If paid to Malaysian residents, they are taxable at 20 percent in Serbia.

⁷ A 5 percent rate is applicable for intellectual property and 10 percent rate for industrial property.

⁸ A 0 percent rate is applicable in cases when the income recipient is the Government or government owned banks.

Indirect Taxation and Customs

Investor Considerations

In Serbia, VAT was implemented on 1 January 2005. Changes are regularly introduced and tend increasingly towards the EU VAT model.

Value Added Tax

Compliance with the EU Sixth Directive

The VAT Law follows the principles of the EU Sixth Directive.

Scope and rates

Scope

The following will be liable to VAT:

- the delivery of goods and provision of services (i.e. sales of goods and services):
 - carried out by a taxpayer;
 - in the Republic of Serbia;
 - for a charge;
 - in the course of performing business activities;
- import of goods into the Republic of Serbia.

In addition, the following are specifically defined as supply of goods:

- transfer of the right to manage goods for consideration on the basis of law;
- delivery under a leasing contract;
- commission arrangements;
- consignment arrangements;
- toll manufacturing;
- first transfer of over the right to use new buildings or parts thereof;
- exchange of goods or services;
- wastage over prescribed limits;
- sale of goods free of charge (under certain conditions);
- use of goods representing a part of the business assets of the taxpayer for the personal use of the founder, employees or other persons (under certain conditions).

The supply of services is widely defined as all activities and steps taken in the course of the performance of activities, which do not constitute the sale of goods. Furthermore, a failure to act will also be recognised as a supply of services.

Taxable services also include:

- the transfer and assignment of copyrights, patents, licences, trade marks and other intellectual property rights;
- accession of other shares and rights;
- delivery of goods produced or manufactured from the materials of the ordering party;
- exchange of services for goods or services as well as use of goods representing part of the business assets of a taxpayer for the personal use of the founder, employees and other persons;
- provision of services free of charge for the personal use of the founder, employees and other persons (under certain conditions).
- Any supply of services free of charge.

Rates

The Law envisages two categories of supplies:

- taxable:
 - at the general rate of 18 percent; or
 - at the lower rate of 8 percent;
- exempted (zero-rated).

The following supplies are subject to VAT at 8 percent:

- basic food products (e.g. bakery and dairy products, vegetables, fruit, honey, etc.);
- drinking water (with the exception of bottled water);
- medicines and medical aids (including those used in veterinary medicine);
- public utilities
- hotel and similar accommodation;
- first transfer of the right of use of a residential property, as well as the equity shares in these buildings;
- natural gas;
- daily newspapers;
- textbooks and teaching aids;
- utility services;
- Tickets for cinemas, theatres, trade fairs, circus, concert, exhibitions, sport events, galleries, museums, botanical gardens, zoo, amusement park.

Taxpayer and Tax Debtor

Taxpayer

A taxpayer is considered to be a person who independently, and in the course of their business activities, undertakes the supply of goods or services, or imports goods. Business activity is defined as the *permanent activity* of a manufacturer, salesman or service provider for the *purpose of gaining income*. A branch or other operating unit can be a taxpayer.

A non-resident without a head office or permanent establishment within Serbia cannot register for VAT purposes.

Tax Debtor

If the acquirer of the right of disposal or ownership changes the purpose of the residential building within five years from the date of acquisition, such a person will be considered as a tax debtor and will be liable to pay the difference between the general and special VAT rate applicable in the case of first transfer or disposal of ownership rights over residential buildings.

Place of Supply

Generally, Serbia follows the supply rules set out in the EU's Sixth Directive. In accordance with the destination principle, VAT is applied to supplies made in Serbia and imports into Serbia.

Goods

The place of supply of goods is deemed to be:

- the place where the goods are located at the time when transport of goods begins, where transport is arranged by the supplier, recipient or a third party;
- the place where the goods are installed or assembled, if the goods are installed or assembled by the supplier, or by somebody else in the name or on the account of the supplier;
- the place where the goods are located if the supply of goods is made without transport; or
- the place of receipt of water, electricity, gas and energy for heating.

Services

The basic rule is that a supply of services takes place where the person who performs the service has established its business, or has a fixed establishment from which the service is provided.

Exceptions to this rule include:

- where the immovable property in question is situated for services connected with immovable property, including services of valuation, agency, project-management, preparation, performance of construction works including on-site supervision.
- where the service is performed in the case of
 - services in the fields of culture, art, science, education, sport and entertainment events, including the organisers of such services;
 - ancillary transport services such as loading, unloading, transferring and other related services;
 - valuation of movable property;
 - services performed on movable property;
- where the taxable person who receives the service has a workplace or branch or, if there is no work place or branch, the taxable person's permanent or usual residence in the case of:
 - renting of movable assets, except for means of transportation;
 - telecommunication services;

- services in the field of advertising and marketing;
- transfers and assignment of copyrights, patents, licences, trade marks and similar intellectual property rights, and making these available;
- banking, financial and insurance services;
- services provided by consultants, engineers, lawyers, auditors and similar services;
- data processing and providing information;
- the supply of personnel;
- services rendered electronically, as well as radio and TV services;
- intermediary services for the above services
- where the underlying supply takes place for other mediation services.

Import of goods

The place of import is the point of entry into Serbian territory. The rate of VAT applicable to an import will be the rate that applies to a domestic supply.

Time of Supply

The VAT liability occurs on the first day of any of the following activities:

- 1) the supply of goods or services;
 - A supply of goods occurs on the day:
 - when the dispatch or transport of the goods to the recipient or - at the request of the recipient - to a third party begins. If the goods are despatched or transported by the provider, recipient or a third party, at the order of either the recipient or the provider, this also applies to sales of goods by a commission agent;
 - the transfer of the right of disposal over goods to the recipient, if the delivery of goods does not include dispatch or transport;
 - when the recipient or a third party takes over the goods from the provider or the provider's third party, in the case of assembling or installing goods;
 - for electricity, water, electric power and gas on the date of reading the meter for calculating the consumption;
 - of entry of goods into the customs territory.
 - A supply of services occurs on the day:
 - when the individual provision of services has been completed;
 - when the legal basis for provision of services has been terminated in the case of time limited or unlimited services;
 - when the provision of part of the service has been completed, in the case of partial services that are defined as a service of certain parts of economically measurable delivery where a fee has specifically been agreed upon; or
 - the last day of the period for which the invoice is issued, if invoices are issued periodically;
- 2) on collection of the fee or a part of the fee, if this has been collected prior to the supply of goods or services;
- 3) the day on which customs duty is applied (in the case of imports of goods).

Taxable Base

Generally, the value of supply (i.e. the taxable base) is the full fee, including incidental expenses that have been received or are to be received by the taxpayer for the goods delivered or services provided. The fee is assumed to be VAT exclusive, but includes excise, customs duty and other import charges, as well as other public revenues, with the exception of VAT.

In cases where payment is made in the form of a supply of goods or services, the taxable base is the actual market value of the goods or services on the day of their delivery. The same rule is envisaged in the case of the free of charge supply of goods or services.

In the case of sale of goods free of charge and provision of services free of charge for the personal use of the founder, employees and other persons, the taxable base is the purchase price, i.e. cost price of such or similar goods or services at the moment of supply.

Excise, customs duties and other import duties, other public revenues and all secondary expenses for which the taxpayer charges a recipient of goods or services, are included in the taxable base.

The following do not constitute part of the taxable base:

- discounts granted to the recipient of goods or services at the time of supply; and
- amounts charged by the taxpayer on behalf and for the account of another person, if that amount has been transferred to the person on behalf and for the account of whom the taxpayer has performed the collection.

A market value applies in the case of an exchange of goods or services.

Change to the taxable value

The change of the value on which VAT is levied is possible when:

- the goods are returned or the contract cancelled, if the taxpayer for whom the sale of goods and services has been performed amends the deduction of the input VAT, and if the supplier of the goods or services is notified in writing. This notification is not necessary when the recipient is not eligible to recover VAT;
- the fee has not been collected and if there is a court ruling on bankruptcy proceedings or enforced settlement;
- the customs value of imported goods is altered.

Corrections to the taxable base have to be performed in the tax period in which the change has occurred.

VAT compliance

Registration

Compulsory registration

A taxpayer whose total annual turnover has exceeded CSD 2 million (approximately EUR 24,000) is obliged to file a VAT registration form.

Taxpayers, whose total annual turnover (except sales of equipment and structures for business activity performance) has not exceeded CSD 2 million (approximately EUR 24,000) in the last 12 months are not obliged to register for VAT purposes.

Voluntary registration

It is possible for small taxpayers to register, if their total annual turnover/estimation exceeds CSD 1 million (approximately EUR 12,000). Voluntary registration currently appears to be only possible as a small taxpayer and not for those who envisage a large turnover.

Deregistration

If a taxpayer ceases to perform its business activity, it must file an application to cancel its VAT registration. The request for removal has to be submitted not later than 15 days prior to removal from the public register.

A taxable person whose total turnover during the preceding 12 months does not exceed CSD 1 million (approximately EUR 12,000) is allowed to apply for deregistration, but not until two years after VAT registration commences.

Invoices

The taxpayer is obliged to issue an invoice, or another document serving as an invoice, with all required data for every supply made to other taxpayers. The following data must be included:

- name, address and tax identification number (TIN) of the taxpayer/invoice issuer;
- location, date of issue and invoice number;
- name, address and TIN of the taxpayer/invoice recipient;
- type and quantity of goods delivered, or type and volume of services;
- date of sale of goods or services and the amount of advance payments;
- taxable base amount;
- applicable tax rate;
- VAT amount calculated;
- an appropriate note on tax exemption (if applicable).

Two copies of the invoice are obligatory.

The VAT Law includes the possibility of simplified invoices under certain conditions.

Self billing

Self billing by the recipient of goods and services is considered as an invoice under the following conditions:

- the taxpayer (recipient of goods or services) is entitled to enter VAT on the invoice;
- the taxpayer (issuer) and another taxpayer (receiver of document on calculation) have agreed that the calculation of the supply is to be performed by the recipient of goods or services;
- the document on calculation has been submitted to the taxpayer who delivered the goods or services; and
- the taxpayer who delivered the goods or services has agreed in writing with the stated VAT.

Records

The taxpayer must keep records in a manner that enables a tax audit/control to be conducted. Evidence must be preserved for a period of ten years after the year of issue.

Returns

The VAT Law requires taxpayers to file VAT returns and pay VAT within ten days of the end of each taxable period. The usual taxable period is a calendar month, but if a taxpayer's total turnover (for the last 12 months) is less than

CSD 20 million (approximately EUR 241,000), or is forecast (for the next 12 months) to be so, the taxable period is three calendar months.

Tax debtors must submit the tax return for the period in which the tax liability occurs. Tax debtors include:

- a tax representative appointed by a foreign person without a head office or a permanent establishment in Serbia and who performs sales of goods or services in Serbia;
- the recipient of goods or services, if the foreign person does not appoint a tax representative;
- the person who states VAT on the invoice if not obliged to calculate and pay VAT; and
- the entity which imports goods.

An annual adjustment is required from 2006 onwards.

Payments

Payment of the VAT relating to the monthly return must be made within the same period as that allowed for submitting the VAT return.

Any import VAT must be paid along with any customs duty. The customs authorities are in charge of collection of VAT on the import of goods.

Refunds

Generally, if the input tax amount is higher than the tax liability amount, the taxpayer should be entitled to a refund of the difference. This can take the form of an actual cash refund or can be treated as a VAT prepayment to be carried forward against the next VAT liability.

Special provisions are to be applicable to foreign taxpayers, humanitarian organisations, diplomatic and consular offices of foreign states and foreign donors. There is also a possibility for taxpayers who are mostly engaged in export activities to enjoy special treatment (i.e. the taxpayers with the status of predominant exporter).

The tax authorities must pay the refund no later than 45 days (15 days for those entitled to special treatment) after the expiry of the time limit for filing tax returns.

Refunds to foreign entities

VAT incurred by a non-resident company can be recovered under the reciprocity rule providing that the non-resident company did not supply any goods or services in the period to which the claim relates.

Interest and penalties

For all types of violation (failure to issue an invoice, to keep the prescribed records, to pay the VAT within the prescribed term, to submit the registration form within the prescribed term etc.) the same penalty range is envisaged, i.e. from CSD 100,000 up to CSD 1 million (approximately 1,200 – 12,000 EUR).

The responsible individual within the legal entity may also be liable to a personal fine of CSD 10,000 to CSD 50,000 (approximately EUR 120 – 600).

The VAT payer (a natural person) will be fined in the range of CSD 5,000 to CSD 50,000 (approximately EUR 60 – 600) for failure to comply with the provisions of VAT Law.

Interest charges on late payment for all types of taxes are prescribed by the Law on Tax Procedure and Tax Administration. This states that interest is to be calculated and paid at a rate 15 percentage points greater than the annual discount rate of the National Bank, by the application of the most convenient calculation method.

Exemptions

Exemptions with Credit (Zero-Rated)

Supplies which are exempt with credit include the following:

- the export (including to Montenegro) of goods and transport and other services in direct relation to the export, transit or temporary import of goods;
- transportation and other services related to the import of goods if the value of such services is included in the customs base;
- international air transport of passengers, where the non-resident air company is exempted under the reciprocity rule;
- goods carried in personal luggage up to the value of EUR 150;
- delivery of goods and related transport to free zones;
- dispatch of goods to duty-free shops;
- work performed on movable property obtained by a foreign user of the service in Serbia or imported for the purpose of refinement, repair or construction, and which is to be transported or despatched abroad upon completion of the work by the provider of the service, foreign recipient or a third party working under their order;
- delivery of gold to the National Bank;

- entry of goods into a free zone (excluding goods for final consumption in the free zone) and transportation and other services in relation to the entry of goods into the free zone;
- delivery of aircraft and ships and servicing, repairs, maintenance, charter and renting of aircraft/vessels used mainly for international air/river traffic; delivery, renting, repair and maintenance of goods used for equipping such aircraft/vessels;
- sale of goods and services for the direct needs of the above aircraft;
- international river transport (by boat) where the non-resident shipping company is exempted under the reciprocity rule and sale of goods and services for the direct needs of the boats;
- supplies of goods and services in relation to donation agreements that state that tax is not to be paid from the funds as with loan agreements;
- mediation services for the above;
- supply of goods and services carried out in line with credit or/and loan agreements concluded either between:
 - The State Union of Serbia and Montenegro or the Republic of Serbia and international financial organizations or another state or,
 - A third party with international financial organizations or other states, where the Republic of Serbia is the guarantor or counter-guarantor, provided that tax will not be covered from the funds thus obtained in terms of the agreements.

Exemptions without Credit

The following supplies are exempt without credit:

- operations and mediation when dealing with receivables, cheques, bills and other similar securities, except for collecting receivables for other persons;
- transactions and mediating activities while dealing with legal tender, except for paper money and coins not used as legal tender or having numismatic value;
- transactions and mediating activities while dealing with shares, interest in companies and associations, bonds and other securities, except transactions related to keeping and managing securities;
- credit operations, including mediation, and credit checking of individuals and institutions;
- undertaking liabilities, guarantees and other means of securing payment, including mediation;
- transactions and mediation while dealing with deposits, current and gyro accounts, payment orders, as well as payment operations and transfer;
- services of insurance and reinsurance, including the accompanying services of an insurance mediator and agent (representative);
- land (agricultural, construction, built or not built);
- shares, securities, postal orders, administrative fees and stamps by their value in Serbia;
- structures, except first transfer of the right to use new buildings;
- activities in the public interest such as:
 - medical services;
 - education and professional retraining,
 - social, child and youth welfare services,
 - accommodation and sustenance of students in student dormitories and similar institutions,
 - cultural services rendered by not-for-profit organisations,
 - rendering of scientific services as well as sales of goods and services related to these, and performed by not-for-profit organisations registered for performing such activities,
 - rendering of services, such as sports and physical culture, to persons engaged in such activities by not-for-profit organisations registered for performing such activities, and
 - rendering of services of a religious character as well as sales of goods and services related to these and performed by persons registered for such activities;
- service of renting flats and buildings, if used for residential purposes;
- postal services rendered by a public company, as well as delivery of the related goods;
- public broadcasting, except services of a commercial nature;
- services of organizing games of chance;
- rental of agricultural, forest and construction land.

VAT Recovery

Generally, input VAT incurred by a VAT registered person upon the purchase of goods and services and imports for the purpose of its own business activity can be recovered either by way of a credit against output VAT or as a repayment.

VAT incurred by a resident person on the import of goods and on services supplied by a non-resident person under the reverse charge mechanism is recoverable as input VAT on the condition that input VAT has been incurred in the manner prescribed by the Law.

VAT incurred in relation to making the following supplies is recoverable:

- supplies of goods and services liable to VAT;
- exempt with credit supplies; and
- supplies performed abroad, if the right to deduction of the input VAT could be applied to such supply, if it had been performed in Serbia.

The following documentation is necessary to support VAT recovery:

- an invoice for the amount of the input tax made by the other taxpayer participating in the supply, i.e. input VAT, has to have been incurred; or
- an import customs document, stating the input tax, i.e. certifying that the recipient or importer has paid the stated VAT at import.

In some countries input VAT incurred on acquisition of tangible and intangible fixed assets is not recoverable, but should be capitalised. Serbia does not intend to follow this practice.

VAT incurred on the following supplies cannot be recovered:

- the acquisition, production and import of cars, motorcycles, vessels and aircraft and spare parts, gas and supplies, as well as rental, maintenance, repairs and other services related to the use of these means of transport (with the exception of use for sale or rent, passenger transport or driver training);
- entertainment expenditure of the taxpayer;
- the acquisition or import of carpets, electric household appliances, television and radio receivers, works of fine and applied arts and other decorative items for office premises (with some exceptions).

There is no specific rule for how to apportion VAT incurred on a supply to be used for both business and non-business purposes.

If the taxable base has been changed, the taxpayer for whom the supply of goods and services has been carried out is obliged to correct the deduction of the input tax. This correction has to be made in the tax period in which the base has been changed.

Partial exemption

Serbian VAT Law has introduced a system of direct attribution according to the EU model. Input tax must first be attributed on the basis of economic affiliation of costs. It is only apportioned if it cannot be attributed to either the sale of goods and services to which input tax deduction applies, or the sale of goods and services to which input tax is not allowed.

The apportionment calculation takes the form of the percentage of total sales, VAT exclusive, which give rise to a right to deduct input tax relative to total sales of goods and services, from 1 January to the end of the relevant tax period.

An annual adjustment is required at the year end.

Adjustment to VAT recovery

If, within a period of five/ten years from first use, in the case of acquisition of equipment/structures, changes occur in the conditions that were crucial for the deduction of input VAT, a correction of the input VAT must be made for the period following the change.

This requirement is not applicable in the case of the sale of equipment.

Excise Duties

Excise duties are levied on the production and import of the following goods:

- Oil derivatives
- Tobacco products
- Alcoholic beverages
- Coffee

Moreover, excise duties are payable on import of following goods: refreshing non-alcoholic beverages and powders, syrups for non-alcoholic beverages, fruit juices, concentrated fruit juices, fruit nectars and powders for fruit juices.

Excise Duty Assessment

The excise duty base is considered to be the unit of measurement.

The excise taxpayer is considered to be producer and importer of excisable products.

Any excise taxpayer is obliged to charge the excise duties at the moment of putting the excisable products on the market. Deferral of excise duty liability is possible by exercising right to hold a registered excise duty and/or customs warehouse.

Taxpayer pays its excise duty liability on fortnightly bases. Exceptionally in case of import of excisable products, excise duties are paid in moment of payment of import duties.

The Excise Duty Law prescribes mandatory evidence on excise duty that needs to be kept by taxpayer, as well as conditions for establishing and holding excise duty warehouse.

Overview of Applicable Excise Duties

Amounts of excise duties stated in CSD are adjusted on a half yearly basis, according to variations of the consumer price index.

Oil Derivates

Amounts of excise duties applicable for oil derivate are shown in the table below:

Please note that the amounts of excise duties stated in CSD are subject to change due to the increase of the

Consumer Price Index (CPI Index) declared by relevant Government bodies in charge of statistics. The adjustment of the amount of excise duty stated is conducted on a semi-annual basis, in accordance with articles 12, 12a, 13 and 40a paragraph 1 of the applicable Excise Duties Law.

Amounts of excise duties shown represent the latest update, and are applicable for the first half of 2006.

| Type of Oil Derivate | Excise Duties Payable per Litre |
|----------------------------------|---------------------------------|
| Gasoline | 32,33 |
| Diesel | 17.20 |
| Other Oil Derivates ¹ | 36.84 |

Tobacco Products

Excise Duty Law prescribes special provisions for tobacco products. There are two types of excise duty starting from 1 January 2005.

1. Fixed Amount per Pack
2. Proportional Excise Duty

Overview of both fixed and proportional excise duty is presented in tables below:

Overview of Fixed Amount of Excise duty in Case of Tobacco Products

| Period | Type of Product | Excise Duty Base | Fixed Amount per Pack (in CSD) |
|--------------------------------|------------------------------------|-----------------------|--------------------------------|
| Ending on 31 Dec 2006 | Imported cigarettes | Retail price per pack | 14.65 |
| | Cigarettes produced in the country | Retail price per pack | 1.46 |
| From 1 Jan 2007 to 31 Dec 2009 | Imported cigarettes | Retail price per pack | 14.65 |
| | Cigarettes produced in the country | Retail price per pack | 2.95 |
| From 1 Jan 2010 ² | Imported cigarettes | Retail price per pack | 7.32 |
| | Cigarettes produced in the country | Retail price per pack | 7.32 |

Overview of Proportional Excise Duty in Case of Tobacco Products

| Period | Type of Product | Excise Duty Base | Percentage |
|--------------------------------|---|-----------------------|------------|
| Ending on 31 Dec 2006 | Cigars and Cigarillos | Retail price per unit | 30 |
| | Pipe Tobacco and other Tobacco Products | Retail price per kilo | 30 |
| From 1 Jan 2007 to 31 Dec 2009 | Cigars and Cigarillos | Retail price per unit | 40 |
| | Pipe Tobacco and other Tobacco Products | Retail price per kilo | 40 |
| From 1 Jan 2010 | Cigars and Cigarillos | Retail price per unit | 50 |
| | Pipe Tobacco and other Tobacco Products | Retail price per kilo | 50 |

Concept “Minimum Excise Duty” applicable for tobacco products

The concept is based on the fact that if the calculated excise duty is lower than the minimum excise duty, the minimum excise duty will be payable.

Minimum excise duty will be equal to:

- in case of cigarettes: 70 percent of the full excise duties applicable to the cigarette category of the most popular price,
- in case of cigars and cigarillos: 100 percent of the excise duties applicable to the cigar and cigarillo category of the most popular price;
- in case of pipe tobacco and other tobacco products: 100 percent of the excise duty applicable to the pipe tobacco and other tobacco categories of the most popular price.

The most popular price in this context is the retail price of the tobacco product with the greatest wholesale turnover in Serbia, in the prior half-year period.

¹ These are oil derivatives with 380 °C distillation range. The Ministry of Finance and the Ministry of Energy and Mining are in charge for determination of “other” oil derivatives.

² This includes all types of beer except alcohol free beer with 0.5 percent alcohol content.

Alcoholic beverages

Amounts of excise duties applicable for alcoholic beverages are shown in the table below:

| Type of Oil Alcoholic Beverage | Excise Duties Payable per Liter |
|---|---------------------------------|
| 1. Brandy | |
| 1.1. Fruit and grape based brandy and special types of brandy | 66.88 |
| 1.2. Wheat based brandy | 169.67 |
| 2. Strong beverages & liqueurs | 108.76 |
| 3. Low alcohol content beverages | 11.17 |
| 4. Beers ² | 11.17 |

Coffee

A 40 percent excise duty is applied on the import value of the coffee¹. Stated excise duty is applicable for all types of coffee: raw coffee beans, roasted or/and ground coffee and coffee extracts.

Imported goods

Import of non-alcoholic beverages or syrups and powders used for preparation of non-alcoholic beverages is subject to excise duty of **CSD 6.98** per litre.

Excise duty of **CSD 4.51** per litre is applicable in case of import of fruit juices, concentrated fruit juices, fruit nectar and powdered fruit juices.

Excise Duty Exemptions

Excise duty is not payable in case of:

- Export of excise goods by their producer,
- Sale of excise goods to diplomatic and consular missions and foreign diplomatic staff and consular officials on the basis of special certificates issued by the federal agency in charge of foreign affairs, subject to reciprocity as well as in other cases stipulated by international agreements,
- Sale of oil derivatives and coffee stipulated by international donation agreements, with the excise tax exemption clause,
- Dispatch of excise goods by their producer and/or importer for the purpose of being sold on board aircraft and ships operating on international lines as well as the products dispatched to duty-free shops opened at international airports provided with passport and customs control facilities, for the purpose of being sold to passengers in conformity with customs regulations,

Right to Excise Duty Refund

Right to refund of previously paid excise duty exists in case of:

- Export of excise goods by entities other than producers.
- If diesel fuel is sold to the end users for the purpose of powering tractors, construction machines and freight ships, and/or for the conduct of registered construction business and freightage by ship, the excise duty paid when purchasing that fuel is entered into the Register of Farms, kept by the authorities competent. This may be deducted on condition that the diesel fuel is sold through an authorized distributor.
- Any person who is using oil derivatives for industrial purposes may be refunded the excise duty paid on such oil products, on condition that it is obtaining them from an importer or producer who has paid the required excise tax on such oil products.
- For the duration of the UN Security Council Resolution 1244, any excise duty paying producer of oil products, who sells the oil derivatives to buyers from the territory of the Province of Kosovo and Metohija, may be refunded the excise duty paid on them, on condition that it has evidence of the oil derivatives being paid for and dispatched to the territory of the Province of Kosovo and Metohija, as well as evidence that the required excise duty has been paid.

¹ Import value of coffee is set in accordance with customs legislation increased for the amount of assessed customs duties.

CUSTOMS

The Customs Law, which has been in force since 1 January 2004, is modelled on current European standards and practice based on customs legislation of the European Union. This applies especially in respect of basic principles of the Community Customs Code, which are in accordance with the recommendations and views of the World Trade Organisation (WTO) and the World Customs Organisation, as well as with the General Agreement on Tariffs and Trade (GATT). Generally adopted criteria and standards in Serbia are those relating to customs value, origin of goods, customs procedures, intellectual property rights, etc.

One of the main goals of the law is the simplification of the customs procedure in order to make it more efficient and faster (e.g. providing an option for submitting customs documents electronically), in comparison to previous customs regulations.

Customs administration has broad authority, especially regarding control during and after the clearance of goods (including office control over the premises of an importer or exporter). The post importation control period is five years following the import. Currently, Serbian customs authorities are inclined to shift the focus of control from import procedures to the post importation period.

Customs rates

Customs rates as provided in the Customs Tariff Law apply to goods originating in countries which trade with Serbia under the most-favoured nation (MFN) principle. For goods originating in other countries, MFN rates increased by 70 percent apply (this currently applies only to goods originating in Taiwan).

The latest amendments to the Serbian Customs Tariff Law were in July 2005. The goal of the amendments was the reconciliation of Serbian Customs Tariff with Harmonized System (HS) 2002 and Combined Nomenclature of the EU. By this measure, the Serbian Customs Tariff became more compatible with customs tariffs of WTO members and Free Trade Agreements became more achievable. Currently, Serbia is actively preparing for the introduction of HS 2007 as of 1 January 2007.

Customs rates are in the range between 0 percent and 30 percent. and are as follows:
0%, 1%, 3%, 5%, 7%, 8%, 10%, 12%, 15%, 18%, 20%, 22%, 25% and 30%.

Customs rates for 175 products were increased by the latest amendments in 2005, mostly with the intent to protect the following sectors:

1. Agriculture
2. Leather Industry
3. Furniture Industry
4. Electrical Household Machines Industry

The customs rates were decreased for 164 products. This relates to:

- Raw materials and semi-products not produced in Serbia;
- Inputs for export-orientated organizations and those producing for the domestic market where there is high demand, especially in the following sectors:
 1. Black Metallurgy
 2. Coloured Metals
 3. Aluminium
 4. Wood Industry
 5. Textile Industry
 6. Graphics Industry

The weighted customs rate was decreased by approximately 0.09 percent.

Export

For the majority of goods, export is unregulated. However, licences exist for the export of goods that are subject of international contracts and conventions (arms, drugs etc). Export duties for:

- Waste from Fe, Cu, Zn, Pb, Sn and steel - 15 percent
- Raw hide - 20 percent

were provided by the Law on Action Plan for Harmonising Economic Systems of Member States of the State Union of Serbia and Montenegro are not applicable any more on the basis of opinions issued by relevant Serbian Ministries and Customs Authorities. These interpretations were issued after Serbia and Montenegro became independent states.

Import

For the majority of goods, import is free. Certain goods are subject to approvals, restrictions, sanitary and phyto-sanitary controls etc.

As mentioned above, customs duty rates vary in the range from 0 percent to 30 percent (MFN rates). The weighted customs rate is 6.3 percent.

Free Trade Agreements

Serbia has signed a number of Free Trade Agreements, mainly with neighbouring countries, under the project of establishing a regional free trade zone by 2007. The purpose of these Agreements is the development of exchange between countries by gradually removing administrative and customs barriers to the free flow of goods within a period of a couple of years.

Generally, Free Trade Agreements limit the introduction of new barriers, define the tempo and scope of reduction of customs tariffs, product origin criteria and sufficient processing lists, detailed lists of goods on quota regime and administrative procedures.

Serbia has signed Free Trade Agreements with the following countries:

| Country | Signed | Ratified | In effect |
|----------------------|------------------|-----------------|------------------|
| Albania | 13 November 2003 | 27 May 2004 | 1 August 2004 |
| Bulgaria | 13 November 2003 | 26 March 2004 | 1 June 2004 |
| Bosnia & Herzegovina | 1 February 2002 | 26 April 2002 | 1 June 2002 |
| Croatia | 23 December 2002 | 26 March 2004 | 1 July 2004 |
| Macedonia | 21 October 2005 | 1 December 2005 | 1 June 2006 |
| Moldova | 13 November 2003 | 27 May 2004 | 1 September 2004 |
| Russia | 28 August 2000 | 9 May 2001 | 19 May 2001 |
| Romania | 23 December 2003 | 26 March 2004 | 1 July 2004 |

From 1 June 2006, the new FTA with Macedonia applies. Lists of agricultural products which were out of FTA scope are abolished i.e. preferential regime is now fully applicable on import of these products originating in one of the signatory parties. The registration charge of 1 percent of the value of goods has been abolished.

Free Zones

The most important advantages of the Free Zones are that entrance of goods into Free Zones is exempted from the payment of customs duties and VAT (with the right to deduct input VAT), production and provision of services is enabled within the Free Zone, inward processing service is VAT exempt (with the right to deduct input VAT), goods can be carried out of the Free Zone for additional duty-free processing etc. The foreign entity can be the user of the Free Zone and sell goods directly in Serbia. On the other hand, Free Zones do not operate on the ex-territoriality principle i.e. entities operating in FZ are subject to Serbian taxes (corporate income tax etc.).

Serbian Government recently decided to close 11 out of the 14 existing Free Zones, mainly because they failed to meet requirements to remain operational. This decision is also in relation with enacting of the new Free Zones Law (in force from 27 July 2006) i.e. the Government wanted to clear the Free Zones environment before the new law was enacted.

After these actions taken by the Government, three Free Zones remained fully operational:

- Subotica (near the Hungarian border in the North of Serbia)
- Zrenjanin (near the Hungarian and Romanian border in the North-East of Serbia)
- Pirot (near the Bulgarian border in the South-East of Serbia)

There are no indications that these Free Zones will be closed. However, they will have to apply to the Government for consent to remain operational, in accordance with the new Free Zones Law but without obligation to submit an elaborate confirmation that they are economically justifiable.

Amongst others, the following have been abolished in the new Free Zones Law in comparison to the previous one:

- The share of a foreign entity in the share capital of the zone is not limited to 49 percent
- The 0.5 percent value of goods registration charge does not exist any more
- The requirement that at least 50 percent of goods produced and services performed in the Free Zone are exported has also been abolished

The government expects the new Free Zones system to encourage direct foreign investments, development of underdeveloped regions and industries, decrease of foreign trade deficit etc.



Taxation of Individuals

Investor Considerations

Low personal income tax rates

Personal Income Tax

Natural persons, whether residents or non-residents of Serbia, are subject to a range of personal income taxes.

Individuals are regarded as Serbian residents if they:

- Have a domicile in Serbia, or
- Have their habitual abode in Serbia (i.e. if they stay in Serbia at least 183 days, whether or not consecutively, within a period of 12 months beginning or ending in the respective taxation year), or
- Have the centre of their business and vital interests in Serbia, or
- Are seconded abroad to carry on business there for a Serbian resident legal entity, a Serbian natural person, or an international organisation.

Residents are taxable on their worldwide income, whereas non-residents are only liable to tax on Serbian sourced income.

The rates of tax are progressive and the definition of the taxable base depends on the type of income.

Employment income is subject to withholding tax at a flat rate of 14 percent. The taxable base is the gross amount including fringe benefits. Other types of income e.g. royalties, business income, income from agriculture and forestry, investment income, income from immovable property, capital gains and miscellaneous income, are subject to a flat rate tax, which ranges from 14 to 20 percent, depending on the type of income concerned.

As of 1 January 2007 the withholding salary tax rate will be reduced from the current 14 percent to 12 percent and a non taxable salary cap will be introduced at CSD 5,000 per month. It will be adjusted annually in accordance with Consumer Price Index changes

Any taxpayer who earns a salary and other revenues in or from another State, diplomatic or consular mission of a foreign state or an international organization; or representatives of such mission or organization: shall calculate and pay withholding tax in accordance with the Law, if tax has not been charged and paid by the payer of the revenue.

Taxation of salaries

The taxable person is the employee, but the employer is responsible for calculating and withholding personal income tax on behalf of its employees. The tax rate is currently 14 percent, but as mentioned previously it will be reduced to 12 percent.

In addition to the salary tax, social security contributions are also due.

Fringe benefits

- The use of a company car for private purposes is taxed at the rate of 1 percent of the car's market value (as at 31 December of the preceding year) for each month of use. The market value is determined by the competent institution;
- Use of employer owned apartments or if the employer is the lessee is also taxable. The taxable base is the market rent in the city where the apartment is situated.

Taxation of Serbian Citizens

Annual taxation

Annual worldwide net income is aggregated and, if exceeding a prescribed threshold, is taxed at the (additional) rate of 10 percent. For 2005, the threshold for Serbian citizens is four times the average Serbian annual salary in the year concerned. The data on average annual salary is published by the Bureau for Statistics at the end of each year. The threshold for income earned in 2005 was CSD 1,224,672 (approximately EUR 15,000).

For determination of annual income tax for the year ending 31 December 2006 the amended threshold, which is three times the average annual salary in Serbia, will be used.

Additionally, the Law on Amendments to Personal Income Tax Law now has separate annual income tax rates for different income levels, as presented below:

- If the taxable income is between three and six times the average annual salary, the tax rate is 10 percent
- If the taxable income exceeds six times the average annual salary, the tax rate is 15 percent.

Personal allowances

Taxable income may be reduced by personal deduction and allowances for supporting dependent family members. Personal deduction is 40 percent of the average Serbian annual salary in the year concerned and the allowance for each dependent family member is 15 percent of the average Serbian annual salary in the year concerned. Total deductions cannot exceed 50 percent of the taxable income.

Applicable deductions for 2005 were CSD 122,467.2 (approximately EUR 1,500) per taxpayer and CSD 45,925.2 (approximately EUR 550) per dependent.

Tax and Social Security Contributions relief

Specified types of income, up to the prescribed amounts, are tax exempt. They include public transportation costs for home to office travel and daily allowances for business trips.

In certain cases, non-residents working for diplomatic and consular missions or international organisations in Serbia are not taxable on their remuneration.

The following incentives are available:

Employers who hire new employees younger than 30 are exempt from withholding salary tax and social security contributions (the latter borne by the employer). Those persons have to be registered as unemployed with the National Employment Service for at least three months prior to commencement of employment. The exemption is applicable for two years from the commencement of employment.

This exemption is applicable also to trainees younger than 30 registered as unemployed with the National Employment Service. The relief is applicable for three years from the commencement of employment.

The same exemption applies if disabled persons are employed for an indefinite period of time, in accordance with the Law covering prevention of discrimination of disabled persons. This exemption is applicable for three years from the commencement of employment.

A tax exemption is provided in cases where the employed individuals are older than 45 and have been registered with the National Employment Service for at least six months prior to employment or have been entitled to unemployment reimbursement. Relief from payment of social security contribution on behalf of employer is set at 80%. This incentive is available for a two year period from the commencement of employment.

Employers who hire individuals older than 50 and have been registered with the National Employment Service for at least six months prior to employment or have been entitled to unemployment reimbursement are exempt from withholding salary tax and social security contributions on behalf of employer (100%). This incentive is available for a two year period from the commencement of employment.

The regulations provide certain additional conditions that have to be fulfilled.

Other Tax Exempt Income

Recent amendments introduce three new categories of non-taxable income:

1. VAT remuneration, paid to the farmers registered in the cadastral books (starting from 27 July 2006);
2. Bonuses paid to the students for special achievements during school years (starting from 1 January 2007) and
3. Income received by natural persons from the sale of capital in the privatisation process. The non-taxable threshold is EUR 200 per year of employment in the entity privatised (starting from 1 September 2006).

Social Security Contributions

Social security contributions are calculated and withheld by an employer from the salary paid to an employee up to specified cap. These contributions are payable by the employer and employee at equal rates. The amount borne by the employer is treated as an operating cost, while the portion payable by the employee is taken from gross salary. The rates are as follows:

- Pension and disability insurance 11 percent
- Health insurance 6.15 percent
- Unemployment insurance 0.75 percent

A Law on Amendments to Social Security Contributions is in force, starting from 27 July 2006.

Starting from 1 January 2007, the minimum social security contributions base will be reduced from 40 to 35 percent of the average monthly salary in the Republic of Serbia, regardless of the qualifications of individual employees.

The maximum tax base for social security contributions remains at five times the average monthly salary in the Republic of Serbia. The new maximum base for social security contributions is applied, starting from the first day of the month following the month in which the data is published.

Example (in CSD)

| PIT exempt amount | | 5,000 | | | | | | |
|-------------------|---------|------------------|----------------------|---------|----------------------|------------------|-------------------|------------------------------------|
| 5 x avg. salary | | 150,000 | | | | | | |
| Soc. Sec. Cont. | | 26,850 | | | | | | |
| Net | Gross | 12% - Salary tax | 17.9% - SSC employer | Net | 17.9% - SSC employer | Chamber of comm. | Total salary cost | Effective tax burden on net salary |
| 300,000 | 370,739 | 43,889 | 26,850 | 300,000 | 26,850 | 704 | 398,293 | 32.76% |
| 200,000 | 257,102 | 30,252 | 26,850 | 200,000 | 26,850 | 488 | 284,441 | 42.22% |
| 150,000 | 200,284 | 23,434 | 26,850 | 150,000 | 26,850 | 381 | 227,515 | 51.68% |
| 100,000 | 141,797 | 16,416 | 25,382 | 100,000 | 25,382 | 269 | 167,449 | 67.45% |
| 75,000 | 106,134 | 12,136 | 18,998 | 75,000 | 18,998 | 202 | 125,334 | 67.11% |
| 50,000 | 70,471 | 7,856 | 12,614 | 50,000 | 12,614 | 134 | 83,219 | 66.44% |
| 40,000 | 56,205 | 6,145 | 10,061 | 40,000 | 10,061 | 107 | 66,373 | 65.93% |
| 30,000 | 41,940 | 4,433 | 7,507 | 30,000 | 7,507 | 80 | 49,527 | 65.09% |
| 25,000 | 34,807 | 3,577 | 6,231 | 25,000 | 6,231 | 66 | 41,104 | 64.42% |
| 20,000 | 27,675 | 2,721 | 4,954 | 20,000 | 4,954 | 53 | 32,681 | 63.41% |

Taxation of Expatriates

Benefits

Expatriate-residents of Serbia, employed by a resident entity or a representative office of a foreign entity, are entitled to a tax exemption of 35 percent of their Serbian salary. This exemption relates to allowances paid to expatriates.

Annual taxation

Annual worldwide net income is aggregated and, if exceeding a prescribed threshold, is taxed at the (additional) rate of 10 percent. For 2005 the threshold for non-Serbian citizens is ten times the average Serbian annual salary in the year concerned. The data on average annual salaries is published by the Bureau for Statistics at the end of each year. The threshold for income earned in 2005 was CSD 3,061,680 (approximately EUR 36,900).

For determination of annual income tax for the year ending 31 December 2006, the amended threshold of five times the average annual salary in Serbia will be used.

Additionally, the Law on Amendments to the Personal Income Tax Law now has separate annual income tax rates for different income levels, as presented below:

- If the taxable income is between five and eight times the average annual salary, the tax rate is 10 percent
- If the taxable income exceeds eight times the average annual salary, the tax rate is 15 percent

Personal allowances

Taxable income may be reduced by personal deduction and allowances for supporting dependent family members. The personal deduction is 40 percent of the average Serbian annual salary in the year concerned and the allowance for each dependent family member is 15 percent of the average Serbian annual salary in the year concerned. Total deductions cannot exceed 50 percent of the taxable income. For 2005 the personal deduction was CSD 122,467.2 (approximately EUR 1,500) per taxpayer and CSD 45,925.2 (approximately EUR 550) per dependent.

Filing Requirements

Each taxpayer is required to file a tax return by 15 March of the following year. No extension is allowed. There is no joint tax return filing system in Serbia.

Tax System, Administration and Other Taxes

Investor Considerations

Law on Tax Administration and Tax Procedures
Property tax, inheritance and gift tax and transfer tax
Non-residents are not considered taxpayers

Law on Tax Administration and Tax Procedure

The Law on Tax Administration and Tax Procedures came into force on 1 January 2003.

This Law abolished almost all provisions of other tax Laws which, until that moment, regulated the field of tax administration, procedures, control and debt enforcement. This was the main objective of the adoption of the new Law: to unify and to centralise all the regulations in the aforementioned field, which were previously covered by more than ten Acts (confusing to the taxpayers).

The most important provisions are as follows:

- It established a new Tax Authority as a regular part of the Serbian Ministry of Finance, replacing the Public Revenue Agency of Serbia (RUJP), which was an independent Government organisation outside the Ministry. The new Tax Authority encompasses all Government bodies, institutions and employees in charge of controlling calculation, payment and debt enforcement of public revenues;
- It also established the Tax Police as a Department within the Tax Authority, with the specialized role of uncovering tax crimes and pursuing offenders;
- Registration of all taxpayers and issuance of tax identification numbers (PIB);
- Mortgage and other pledge rights established against taxpayers during the tax procedure have to be registered in the same way as the rights of private creditors (the previous legislation gave the Public Revenue Agency favourable mortgage rights without any requirement for registration);
- The Law gives certain rights to taxpayers (e.g. obtaining information about taxes from the Tax Authority without any charge, protection of privacy rights);

It should be emphasised that, during the tax procedure, the general law in the field of administrative procedure (Law on General Administrative Procedure) applies in each situation where nothing is specifically provided by this Law. However, where any other specific tax Law regulates an administrative issue in a way at variance with this new Law, than the specific provision will prevail.

Since its introduction, the Law was subject to several amendments. Significant changes were adopted in July 2005 and their major goal was to make the tax procedure more efficient by:

- reducing time limits;
- establishing connections between institutions participating in tax procedures;
- giving increased authority to tax officials; and
- closing some loopholes in the law by defining them in more detail.

Property Tax

Scope of property tax and taxpayer

Property tax is payable in Serbia by all legal entities and individuals who own or have rights over real estate located in the Republic of Serbia, such as:

- right to usufruct,
- right to use and inhabitancy,
- time-sharing right,
- tenancy right of one year or for an indefinite period of time, and
- urban land usage right (municipal, public and other state owned land) exceeding 10 are¹ in area.

If the holder of the real estate is not known or not determined, the property tax is levied to the real estate beneficiary.

No legal entities and individuals who own registered shares and interests in limited liability companies are obliged to pay tax, starting from 1 January 2005.

Tax rates

Where the taxpayer keeps books, the property tax on real estate is levied at a flat rate of 0.40 percent. If the taxpayer is an individual or entrepreneur who is taxed according to the so-called lump-sum income basis, the rates of property tax on real estate are progressive, as shown in the following table:

| Taxable base | | Tax due | |
|-------------------------|-------------------|---|---|
| in CSD | Approx. in EUR | in CSD | EUR |
| Up to 6 million | Up to 72,300 | 0.40% | 0.40% |
| 6 million – 15 million | 72,300 – 181,000 | 24,000 + 0.80% on the amount exceeding 6 million | 290 + 0.80% on the amount exceeding 72,300 |
| 15 million – 30 million | 181,000 – 361,000 | 96,000 + 1.50% on the amount exceeding 15 million | 1,200 + 1.50% on the amount exceeding 181,000 |
| Over 30 million | over 361,000 | 321,000 + 3% on the amount exceeding 30 million | 3,900 + 3% on the amount exceeding 361,000 |

Tax exemptions

Property tax relating to the ownership of real estate with a total value not exceeding CSD 400,000 (approximately EUR 4,800) is not to be paid by the taxpayer.

Filing requirements

Property tax is assessed by an appropriate tax official on the basis of the facts reported in the tax return in the first taxable year. In subsequent years, the tax return should be submitted only if facts relevant to the liability have changed. Property tax is paid quarterly within 45 days from the beginning of the three month period.

Inheritance and Gift Tax

Scope of inheritance and gift tax and taxpayer

The inheritance and gift tax is applicable in case of inheritance or receipt without consideration of the following:

- real estate ownership right,
- right to usufruct,
- right to use and inhabitancy,
- time-sharing right,
- tenancy right over one year or for indefinite period of time,
- urban land usage right, and
- money, savings deposits, bank deposits, cash receivables, intellectual property rights, interests in a legal entity, securities, right of ownership of a second-hand motor vehicle, second-hand vessel or second-hand self-propelled vessel other than a government-owned one and other chattel.

¹ A unit for measuring an area of land, 100 square meters

The inheritance and gift tax is payable by both residents and non-residents of Serbia who inherited or received rights to real estate as a gift.

Tax rates

Rates of inheritance and gift tax in Serbia are progressive, depending on the relationship between the beneficiary and the deceased/donor and the value of the inheritance or gift.

In cases where the taxpayer is in the second order of succession relative to the deceased or donor, the tax rate is 3 percent in the first band (for tax base up to CSD 300,000, approximately EUR 3,600) and CSD 9,000 (approximately EUR 110) plus 5 percent on the amount in excess of CSD 300,000 (if tax base exceeds CSD 300,000, approximately EUR 3,600).

If the taxpayer is in the third order of succession and in other cases (e.g. further orders of succession or no kinship), the tax rate is always 5 percent.

Tax exemptions

- No inheritance or gift tax is paid by the successor, a beneficiary who is in the first order of succession to the deceased/donor, or by their spouse or parent.
- Transfer of shares, without any consideration, in the process of privatisation is tax exempt.
- Transfer of bonds on foreign currency savings and bonds for the economic rebirth of Serbia is tax exempt.

There are certain other exclusions from inheritance and gift tax.

Filing requirements

Any payer of inheritance and gift tax must file a tax return to the Tax Authorities within ten days from the date of such a change.

Tax on Transfer of Absolute Rights

Scope of Tax on Transfer of Absolute Rights and Taxpayer

The tax on transfer of title over property is payable by a natural person or legal entity who sells rights in relation to real estate, intellectual property, interests in legal entities and securities and the like. The taxable base is the price stated in the contract, or the market value of the property.

Tax rate

The transfer tax rates in Serbia are proportional:

- 0.3 percent in case of transfer of interest in a legal entity or securities,
- 2.5 percent in case of sale of absolute rights to agricultural and forest land,
- 2.5 percent in case of transfer of right of ownership to a second-hand motor vehicle, second-hand vessels or second-hand aircrafts, and
- 5 percent in case of transfer of other rights.

Tax exemptions

Tax on transfer of absolute rights is not applicable in the following cases:

- Transfer of title over property as a result of enforced collection of public tax revenue.
- Transfer of absolute rights is levied in the case of in kind contribution of property, placed in shares or a limited liability company.
- Transfer of ownership rights with consideration over vehicles for special purposes (vehicles with build-in devices for handicap persons, vehicles for driver's education and taxi and rent-a-car vehicles). If taxi and rent-a-car vehicles purpose is changed within a 5 year period of the time the tax is due.
- Transfer of title over property in process of privatisation.

There are certain other exclusions from tax on transfer of absolute rights.

Filing requirements

The taxpayer must file a tax return containing correct data within ten days from the onset of tax liability, together with the documents necessary for the determination of tax base to the Tax Authority field office, situated in the municipality on whose territory real estate is situated.



Legal Reforms in Progress

Investor Considerations

Legal reform includes adoption/amendment of series of laws.
The most important laws/amendments adopted recently and to be adopted in the near future are listed below.

The List of Laws/Amendments to the Laws Adopted in the past and during this Year

| Law | Adopted on |
|---|-------------------|
| Law on Postal Services | 24 February 2005 |
| Law on Mediation | 24 February 2005 |
| Labour Law | 13 March 2005 |
| Amendments to the Privatization Law | 30 May 2005 |
| Amendments to the Law on Share Found | 30 May 2005 |
| Amendments to the Labour Law | 15 July 2005 |
| Amendments to the Customs Law | 11 July 2005 |
| Amendments to the Law on Value Added Tax | 15 July 2005 |
| Amendments to the Law on Financial Leasing | 15 July 2005 |
| Law on Insurance of Deposit | 15 July 2005 |
| Law on the Agency for Insurance of Deposit | 15 July 2005 |
| Amendments to the Law on Bankruptcy and Liquidation of Insurance Organizations | 15 July 2005 |
| Amendments to the Law on Registration of the Companies | 15 July 2005 |
| Amendments to the Insurance Law | 6 October 2005 |
| Amendments to the Law on Tax Procedure and Tax Administration | 6 October 2005 |
| Law on Banks | 11 November 2005 |
| Competition Law | 16 September 2005 |
| Law on Consumer Protection | 16 September 2005 |
| Law on Foreign Trade Transactions | 21 November 2005 |
| Law on Preventing Money Laundering | 2 December 2005 |
| Law on Mortgage | 22 December 2005 |
| Amendments to the Law on Planning and Construction | 18 April 2006 |
| Law on Securities and Other Financial Instruments | 2 June 2006 |
| Law on Investments Funds | 2 June 2006 |
| Law on Takeover of Joint Stock Companies | 2 June 2006 |
| The Law on Special Powers for Efficient Intellectual Property Rights Protection | 2 June 2006 |
| The Law on Accounting and Auditing | 2 June 2006 |
| Law on Foreign Exchange Operations | 14 July 2006 |
| Law on Agriculture Land | 14 July 2006 |
| Amendments to the Broadcasting Law | 14 July 2006 |
| Law on Free Trade Zones | 14 July 2006 |

Legislative Reforms in Progress

| Law | Status |
|--|-------------------|
| Amendments to the Competition Law | Draft in progress |
| Law on Customs | Draft in progress |
| Law on Factoring | Draft in progress |
| Law on Industrial Parks | Draft in progress |
| Amendments to the Law on Privatization | Draft in progress |
| Law on Trade | Draft in progress |
| Amendments to the Law on Foreign investments | Draft in progress |
| Law on Restitution | Draft in progress |
| Law on Advocacy | Draft in progress |



Introduction to PricewaterhouseCoopers

PricewaterhouseCoopers (PwC) is one of the world's leading providers of professional services. Our aim is to assist clients to build value, manage risk and improve performance. Currently, our worldwide net revenue is approximately USD 20.3 billion. PwC draws on the expertise of more than 130,000 people in 148 countries and provides a full range of business services to leading global, regional and local companies and public institutions worldwide.

PwC refers to the member firms of the worldwide PwC organisation.

PwC in Serbia

PwC in Serbia provides a full range of assurance, tax and business advisory services. Our clients are drawn from the full spectrum of the business community in Serbia and include local state owned and private enterprises, central government bodies, and leading international corporations present in Serbia.

The key element of our success is the quality of our people. Our office is staffed with over a 130 local specialists with knowledge of local conditions and regulations and international consultants with expertise in tackling issues faced by global enterprises. Our staff of local and expatriate assurance, tax and business advisors combines PwC worldwide experience with in-depth local knowledge to provide unparalleled solutions for the local business environment.

The global PwC network enables our specialists to solve problems, supported by experience from different parts of the world.

Our Services

Assurance Services

The Assurance practice comprises internationally trained local and foreign auditors and accountants. All PwC staff are familiar with local and international accounting practices. As a part of our long-term development strategy, PwC Serbia requires its local employees to gain internationally recognized professional qualifications in accounting (UK ACCA), and to specialize in IAS/IFRS.

Due to Serbia's transition to a market economy, the country's accounting and auditing legislation is changing rapidly. We are well placed to understand the practical implications of the new laws and practices on your company's activities, and we can help you develop appropriate strategies to obtain maximum benefit from each new situation.

Our services:

- Financial, operational and organisational audit under international and statutory regulation;
- Financial and accounting review, investigation and due diligence;
- Restatement of accounting records in accordance with standards of Serbia and in compliance with IAS/IFRS, UK GAAP, US GAAP;
- Accounting and consulting services in financial audit, general and management accounting, organisational restructuring;
- IAS/IFRS accounting training;
- Maintenance for setting up an efficient internal audit department.

Advisory Services

Our broad knowledge and experience enable us to advise you on immediate business related issues and also to put them into local context. We are experienced working with clients during times of dramatic economic and financial changes and can anticipate the impact of Serbia and Montenegro's reform efforts on your business.

PwC Serbia has strong relationships with key local organisations and ministries. These relationships enable us to resolve many issues quickly and to identify reliable sources of information

Our services:

Transactions

PwC is well-known in the marketplace for our skill in assisting with and executing all types of financial transactions. We help our clients in mergers and acquisitions, including financial and operational due diligence, accessing the capital markets and valuing, negotiating and structuring deals. We also assist with divestments and developing exit strategies.

Performance Improvement

We help clients improve their performance. We use our deep understanding of finance, risk management/compliance, IT systems, operations and human resources to help our clients identify and implement cost savings initiatives, improve management and control, identify and manage risk and improve quality. We also use our proven experience and expertise to provide hands-on assistance to improve financial under-performance and cash-flow management.

Crisis Management

PwC offers an array of services to help clients deal with critical events as they occur. We provide comprehensive services covering business recovery and restructuring, dispute analysis and forensic investigations.

Tax Services

We provide tax and business advice on all aspects of inward investment into Serbia with a focus on structuring investments and trading activities for maximum tax advantage. Our team is composed of local and expatriate tax professionals with experience in the strategic industries of the country and who can provide detailed insight into the Serbian tax framework.

Indirect Taxation

- Indirect Tax Compliance Services
- Indirect Tax Planning and Structuring
- Assistance in Dealing with the Tax Authorities
- Staff training
- Due diligence

Corporate Tax Services

- Corporate Tax Compliance Services
- Corporate Tax Planning & Structuring
- Transfer Pricing
- Investment Incentives
- Mergers and Acquisitions
- Finance and Treasury Services

Expatriate Tax – International Assignment Solutions

- Personal Tax and Social Security
- Immigration Services

Human Resource Services

Our Human Resource Services practice in Serbia is a part of the PwC network of more than 6,000 professionals in over 100 countries: one of the world's largest HR advisory organisations.

Our multi-disciplinary approach allows us to advise on all aspects of people management, helping our clients to create value for their businesses through people. We help organizations actively manage employee costs, risks and opportunities.

Our consultants work with clients to find tailored solutions to challenges encountered with international assignments to and from Serbia, employee performance, development and reward. We combine human resource best practices with detailed tax, legal and regulatory knowledge.

International Assignments

- Strategic consulting
- Planning and compliance
- Programme administration
- Employment solutions

HR Management

- HR processes improvement
- HR diagnostics and integration at corporate transactions
- Performance management
- Development and training needs analysis
- Competency development
- Outplacement support
- Employee surveys

Reward

- Remuneration and benefits
- Variable remuneration
- Job evaluation
- Benchmarking

Office Contact Details

| David TROW Territory Senior Partner | | |
|--|--|---|
| Assurance Services | Advisory Services | Tax Services |
| Emmanuel KOENIG <i>Partner</i> emmanuel@koenig@yu.pwc.com | Bojidar NEITCHEV <i>Partner</i> bojidar.neitchev@bg.pwc.com | Mike AHERN <i>Partner</i> mike.ahern@yu.pwc.com |
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| | | Ksenija KASTRATOVIC <i>Human Resources</i> <i>Manager</i> ksenija.kastratovic@yu.pwc.com |
| | | Ivana VELICKOVIC <i>Expatriate Tax</i> <i>Senior Consultant</i> ivana.velickovic@yu.pwc.com |

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Fax: +381 11 3302 101

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Internet: www.pwc.com/yu

Bojović & Dašić Attorneys at Law

Bojović & Dašić is a correspondent legal practice of PwC in Serbia, while on a regional level they fall under the network of Landwell, one of the four largest providers of legal services in the world. With partnering legal practices from Bulgaria, FYR of Macedonia, Bosnia and Herzegovina, Montenegro and Albania, they compose a powerful synergy of full-range services providers in South-Eastern Europe.

They specialise in providing a full range of corporate legal services, serving both the largest local and international companies, especially in the area of privatization, corporate restructuring, and mergers and acquisitions.

Attorneys and legal consultants at Bojović & Dašić possess international education, practical experience and excellent understanding of the local laws and business environment, which enable them to offer a wide variety of services and solutions for your business.

The legal consultants at Bojović & Dašić are able to offer a wide variety of services and solutions for your business and combine their work with the work of PwC auditors, accountants, and tax professionals. This creates a powerful partnership that allows us to deliver integrated business solutions.

Bojović & Dašić is integrated or bar-compliant law practice with the following characteristics:

- A registered law office
- Member of Bar chambers of Belgrade and Serbia (bar compliant)
- Integrated into PricewaterhouseCoopers networks
- Member of Foreign Investors Council in Serbia
- Member of European Legal Experts in 2005
- Member in the European Legal 500

Services offered

Corporate/Commercial Law and Foreign investments

- Full legal services on complex business transactions
- All corporate and commercial contractual matters
- Registration of companies, representative offices and branches, liquidations
- Investment Fund advisory

Privatisation, M&A and Corporate Restructuring

- Due diligence reports
- Assist preparation for participation in tenders and auctions, negotiating sale purchase contracts
- Changes of structure, ownership of Company
- Mergers, absorptions, divisions and changes of legal form
- Bankruptcy, reorganizations and restructuring

Real Estate

- Due diligence reports
- Advice on investment in and management of real estate projects
- Legal services regarding purchase of real estate, leasing of property and rental

Banking and Finance

- Due diligence reports
- Advice on legal aspects of mortgages, loans and other financial transactions
- Advice on bank guarantees, promissory notes and other manners of securing transactions

Energy and Mining

- Due diligence reports
- Advice on investments and concession agreements

Litigation and Arbitration

- Conduct of negotiations and mediation for the client; settlement of disputes
- Draft of arbitration agreements
- Advice on litigation strategy, conduct of litigation
- Representation of clients in administrative proceedings and disputes

Labour Law and Employment

- Advise on, negotiate and draft all types of individual and collective employment agreements, and redundancy issues
- Other employment related services

Securities Law

- Advice on securities transactions
- Advice on the increase of capital for joint stock companies
- Advice on takeover bid

Competition Law

- Unfair market practices: abuse of dominant position, anti-competitive agreements

IT, Telecommunications, Media and Postal Services

- Due diligence reports
- Legal Advisory

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Useful Information

Directory and Serbian Government Contacts

| Ministry | Address | Telephone | Fax | URL | E - mail |
|---|--------------------------------|--|------------------------------|--|--|
| Office of Prime Minister | Belgrade, 11 Nemanjina St. | (+381) 11 3617-719 | (+381) 11 3617-609 | www.srbija.sr.gov.yu | predsednikvladesrbije@srbija.sr.gov.yu |
| Office of Deputy Prime Minister | Belgrade, 11 Nemanjina St. | (+381) 11 3617-580 | (+381) 11 3617-597 | www.srbija.sr.gov.yu | kabinet.potpredsednika@sr.gov.yu |
| Ministry of International Economic Relations | Belgrade, 10 Vojkovicева St. | (+381) 11 3617-583; 3617-628; 3346-599 | (+381) 11 3633-142 | www.mier.sr.gov.yu | cabinet@mier.sr.gov.yu |
| Ministry of Finance | Belgrade, 20 Knez St. | (+381) 11 3614-972; | (+381) 11 3618-914 | www.mfin.sr.gov.yu | informacije@mfin.sr.gov.yu |
| Ministry of Economy | Belgrade, 16 Kralja Milana St. | (+381) 11 3617-599; 3617-699 | (+381) 11 3617-640; 3610-045 | www.mpriv.sr.gov.yu | officempriv@mpriv.sr.gov.yu |
| Ministry of Capital Investment | Belgrade, 22-26 Nemanjina St. | (+381) 11 3616-426; 3616-431 | (+381) 11 3617-486 | www.mki.sr.gov.yu | cabinet@mki.sr.gov.yu |
| Ministry of Trade, Tourism and Services | Belgrade, 22-26 Nemanjina St. | (+381) 11 3618-852; 3613-404 | (+381) 11 3610-258 | www.minttu.sr.gov.yu | kabinet@minttu.sr.gov.yu |
| Ministry of Agriculture, Forestry and Water Management | Belgrade, 22-26 Nemanjina St. | (+381) 11 3065-038; 3065-039 | (+381) 11 3616-272 | www.minpolj.sr.gov.yu | office@minpolj.sr.gov.yu |
| Ministry of Energy and Mining | Belgrade, 36 Kralja Milana St. | (+381) 11 3631-595; 3346-755 | (+381) 11 3616-603 | www.mem.sr.gov.yu | kabinet@mem.sr.gov.yu |
| Ministry of Labour, Employment and Social Affairs | Belgrade, 22-26 Nemanjina St. | (+381) 11 3616-253; 3617-498 | (+381) 11 3618-780 | www.minrzs.sr.gov.yu | kabinet@mrz.sr.gov.yu |
| Ministry of Science and Environmental Protection | Belgrade, 22-26 Nemanjina St. | (+381) 11 3616-516; 3616-584; 2688-047 | (+381) 11 3616-516; 3616-584 | www.mntr.sr.gov.yu | info@mntr.sr.gov.yu |
| Ministry of Interior | Belgrade, 101 Kneza Milosa St. | (+381) 11 3062-00 | (+381) 11 3617-814 | www.mup.sr.gov.yu | muprs@mup.sr.gov.yu |
| Ministry of Justice | Belgrade, 22-26 Nemanjina St. | (+381) 11 3616-548; 3616-549 | (+381) 11 3616-419; 685-672 | www.mpravde.sr.gov.yu | kabinet@mpravde.sr.gov.yu |
| Ministry of Public Administration and Local Self-Government | Belgrade, 6 Bircaninova St. | (+381) 11 2685-387; 2685-389 | (+381) 11 2685-315 | www.mpalsg.sr.gov.yu | info.mpalsg@mpalsg.sr.gov.yu lokalnasamouprava@mpalsg.sr.gov.yu |

| Ministry | Address | Telephone | Fax | URL | E - mail |
|---------------------------------|--------------------------------|---------------------------------|--------------------|------------------------|--|
| Ministry of Education and Sport | Belgrade, 22-26 Nemanjina St. | (+381) 11 3615-043; | (+381) 11 3616-491 | www.mps.sr.gov.yu | webmaster.mps@mps.sr.gov.yu |
| Ministry of Culture | Belgrade, 11 Nikola Pasic Sq | (+381) 11 3398-404 | (+381) 11 3398-936 | www.kultura.sr.gov.yu | kabinet@kultura.sr.gov.yu |
| Ministry of Health | Belgrade, 22-26 Nemanjina St. | (+381) 11 3616-251; 3616-596 | (+381) 11 656-548 | www.zdravlje.sr.gov.yu | press_zdravlje@zdravlje.sr.gov.yu kabinet.zdravlje@zdravlje.sr.gov.yu |
| Ministry of Religion | Belgrade, 11 Nemanjina St. | (+381) 11 3065-960 | (+381) 11 3633-446 | | kabinet.mv@mv.sr.gov.yu pr.mv@mv.sr.gov.yu |
| Ministry of Diaspora | Belgrade, 20 Vase Carapica St. | (+381) 11 2638-033 2636-815 | (+381) 11 2637-624 | www.mzd.sr.gov.yu | info@mzd.sr.gov.yu |
| Ministry of Defence | Belgrade, 5 Bircaninova St. | (+381) 11 3203-015 | (+381) 11 3203-466 | www.mod.gov.yu | info@mod.gov.yu |
| Ministry of Foreign Affairs | 24-26 Knez Milos St. | (+381) 11 3616-333 3615-666 | (+381) 11 3618-366 | www.mfa.gov.yu | mfa@smip.sr.gov.yu |

Government Agencies and Institutions

| Name | Address | Telephone | Fax | URL | E - mail |
|--|----------------------------------|--|---------------------|-----------------------------|-------------------------------------|
| Serbian Investment and Export Promotion Agency | Belgrade, 3/ V Vajkovicева St. | (+381) 11 3398-550 | (+381) 11 3398-814 | www.siepa.sr.gov.yu | office@siepa.sr.gov.yu |
| Privatisation Agency | Belgrade, Terazije 23/6 St. | (+381) 11 3020-800 | (+381) 11 3248-375 | www.priv.yu | info@priv.yu |
| Tax Administration | Belgrade, 3-5 Save Maskovica St | (+381) 11 3950 528 | (+381) 11 32 39 031 | www.poreskauprava.sr.gov.yu | informacije@poreskauprava.sr.gov.yu |
| Share Fund | 5 Nikole Pasica Sq. Belgrade, | (+381) 11 3331-800 3331- 811 | (+381) 11 3331-831 | www.share-fund.co.yu | |
| Republican Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship | Belgrade, 19 Toplicin Venac St. | (+381) 11 3346-107 | (+381) 11 3346-601 | www.sme.sr.gov.yu | SMEs@net.yu |
| National Employment Service | Belgrade, 8 Kralja Milutina St. | (+381) 11 3307-900 | (+381) 11 3307-980 | www.rztr.co.yu | |
| Statistical Office of Serbia | Belgrade, 5 Milana Rakica St., | (+381) 11 2412-922 2401-284 | (+381) 11 411-260 | www.statserb.sr.gov.yu | stat@statserb.sr.gov.yu |
| Agency for deposit insurance, rehabilitation, bankruptcy and liquidation of banks | Belgrade, 2/1 Knez Mihailova St. | (+381) 11 3287-738 | (+381) 11 3287-741 | www.bra.gov.yu | info@bra.gov.yu |
| Public Procurement Office | Belgrade, 22-26 Nemanjina St. | (+381) 11 3620-922 3620-516 3620-614 3620-611 3616-534 | | www.ujn.sr.gov.yu | info.ujn@ujn.sr.gov.yu |
| Central Registry, Depository and Clearing of Securities | Belgrade, 5 Nikola Pasic Sq. | (+381) 11 3331-380 | (+381) 11 3331-329 | www.crhov.co.yu | |
| Republican Bureau for Development | Belgrade, 4 Makedonska St. | (+381) 11 3345-233 | (+381) 11 3345-531 | | |

Other State Institutions of Republic of Serbia

| Name | Address | Telephone | Fax | URL | E - mail |
|---|----------------------------------|--|--------------------|------------------------------|---------------------------|
| National Assembly of Republic of Serbia | Belgrade, 14 Kralja Milana St. | (+381) 11 3222-001 3222-002 3222-003 | (+381) 11 626-598 | www.parlament.sr.gov.yu | |
| National Bank of Serbia | Belgrade, 12 Kralja Petra St. | (+381) 11 3027-100 | (+381) 11 | www.nbs.yu | |
| Constitutional Court of Serbia | Belgrade, 26 Nemanjina St. | (+381) 11 658-755 656-147 | (+381) 11 643-423 | | |
| Supreme Court of Serbia | Belgrade, 26 Nemanjina St. | (+381) 11 658-755 656-147 | (+381) 11 2060 094 | www.vrhovni.sud.sr.gov.yu | vss@vrhovni.sud.sr.gov.yu |
| Commercial Court in Belgrade | Belgrade, 2 Masarikova St. | (+381) 11 2060 000 | (+381) 11 659-093 | www.trgsud.org.yu | |
| Superior Commercial Court of Serbia | Belgrade, 16 Deligradska St. | (+381) 11 658-755 659-452 | | www.trgovinski.sud.srbija.yu | |
| Autonomous Province of Vojvodina | Novi Sad, 16 Mihajla Pupina Blvd | (+381) 21 475 40 12 | | www.vojvodina.sr.gov.yu | |

Economy

| Name | URL |
|---|-------------------|
| Chamber of Commerce and Industry, Serbia | www.pks.co.yu |
| Chamber of Commerce and Industry, Vojvodina | www.pkv.co.yu |
| Chamber of Commerce and Industry, Belgrade | www.kombeg.org.yu |
| Belgrade Stock Exchange | www.belex.co.yu |
| Agency for City Building Land and Development of Belgrade | www.beoland.co.yu |
| Belgrade Fair | www.sajam.co.yu |
| Fair of Novi Sad | www.nsfair.com |

Tourism and Transportation

| | |
|----------------------------------|----------------------------|
| Belgrade Airport | www.airport-belgrade.co.yu |
| JAT Airways | www.jat.co.yu |
| Port of Belgrade | www.port-bgd.co.yu |
| Tourist Organization of Serbia | www.serbia-tourism.org |
| Tourist Organization of Belgrade | www.belgradetourism.org.yu |
| Hotel Hyatt Regency | www.hyatt.com |
| Hotel Moskva | www.hotelmoskva.co.yu |
| Hotels | www.hotels.co.yu |
| Automotive Association of Serbia | www.amss.org.yu |
| Belgrade - Official web site | www.beograd.org.yu |

Membership of International Organisations*

| Name | Member since |
|---|-------------------------|
| SEE Stability Pact | 26.10.2000 |
| UN | 01.11.2000 |
| OEBS | 10.11.2000 |
| International Group for Copper and Zinc | 20-21.11.2000 |
| ILO | 24.11.2000 |
| Adriatic-Ionic Initiative | 25.11.2000 |
| CEI | 25.11.2000 |
| WHO | 28.11.2000 |
| SECI | 05.12.2000 |
| UNIDO | 06.12.2000 |
| IMO | 11.12.2000 |
| EFTA | 12.12.2000 |
| UNESCO | 20.12.2000 |
| IMF | 20.12.2000 |
| IOM | 28.12.2000 |
| ICAO | 13.01.2001 |
| EBRD | 19.01.2001 |
| EUREKA AUDIOVISUAL | 02.02.2001 |
| WMO | 23.03.2001 |
| UNIDROIT | 18.04.2001 |
| ITU | 18.06.2001 |
| UPU | 18.16.2001 |
| EUTELSAT | 29.06.2001 |
| OTIF | 01.08.2001 |
| IAEA | 17.09.2001 |
| INTERPOL | 24.09.2001 |
| WIPO | 24.09.2001 |
| CEMT | 27.09.2001 |
| FAO | 02.11.2001 |
| PNZ | 14.11.2001. - observers |

*After the split of former Yugoslavia and during the period of international sanctions in the 1990's Serbia lost its member status in many international organisations and renewed it after democratic changes in October 2000.

Restaurants in Belgrade

| Name | Tel |
|--------------------------------------|-------------------|
| Dača (Serbian) | +381 11 781 009 |
| Kod Radeta (Serbian) | +381 11 3406 715 |
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| Villa Klub (International) | +381 11 3442 656 |
| Vuk (Serbian) | +381 11 2629 761 |
| Sova (Chinese) | +381 11 624 582 |
| Porto (Sea Food) | +381 11 3225 624 |
| Malevilla (Sea Food) | +381 11 695 926 |
| Košava (International) | +381 11 628 281 |
| Kapric (Italian) | +381 11 2626 930 |
| Royal Knez (Italian) | +381 11 631 545 |
| Burito Bar (Mexican) | +381 11 3376 546 |
| Bevanda (Sea Food) | +381 11 4447 446 |
| Franshe d Epare (International) | +381 11 641 944 |
| Reka (Sea Food) | +381 11 618 500 |
| Sport Café (International) | +381 11 3243 177 |
| Verdi (Italian) | +381 11 3222 401 |
| Byblos (Lebanese) | +381 11 2441 938 |
| Langouste (Sea Food) | +381 11 3283 680 |
| Backstage (International) | +381 11 3247 468 |
| Iguana (International) | +381 11 2443 3 83 |

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