Bosnia and Herzegovina
Automotive Industry

FOREIGN INVESTMENT PROMOTION AGENCY

BOSNIA AND HERZEGOVINA INVESTMENT OPPORTUNITIES

2015
Bosnia and Herzegovina
Automotive Industry
Bošnija i Hercegovina

Your new location for automotive-components plants!
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BACKGROUND

Bosnia and Herzegovina has a long tradition and widespread experience in the automotive industry. For decades, major brands have relied on the skilled workforce of B&H to assemble cars for Western markets. First steps in this industry branch were made in 1950s in production of different parts and components for passenger cars and heavy weight vehicles. Before the 1992 Volkswagen produced passenger and commercial vehicles at a plant near Sarajevo, while Kosmos - Banja Luka and Soko - Mostar produced buses. Within the last ten years automotive industry in Bosnia and Herzegovina (metal processing and manufacturing, tooling, plastic processing, mechanical and electrical and textile products for automotive industry) has faced a dynamic development and became an export oriented industry exporting about 90% of its production all around the world.
ACTUAL SITUATION

Given the trade surplus, Base Metals lost the lead as the category with the largest surplus within the B&H export structure. The 2013 surplus of this category totaled 354.1 million BAM, lower by 60 million BAM compared to the Wood and Wood Products category. In contrast, the category Machinery and Equipment remained far from being in surplus territory despite the favorable trend in 2013 mirrored by a growth in exports and a decline in import figures.

While in other segments bh industry stagnates, companies engaged in to auto components manufacture prosper year by year. Foreign companies show stronger interest for new investments such as one respectable consultant company Roland Berger that made a Study for potential investors from Japan – most powerful auto component market around the world. Still, main business partners of bh automotive sector are coming from Germany and Austria.

Significant business results achieved from 2011 to 2013 were related mainly to the members of the global automotive industry consortium (Prevent BH, FAD and Man + Hummel Group Cimos) that recorded impressive financial and operating results on an annual basis. In addition, company Prevent BH recorded total sales amounting to 348.2 million KM representing a strong annual growth of 11.5%. On the other hand Fad from Jelah is one of the key Prevent Group players that recorded a staggering performance in terms of sales increased by 55.8% annually or 48,12 million KM. Third position belongs to MAN Hummel from Tešanj that gained 12% increase in sales per year. Thus, the business model of the companies mentioned earlier directly placed own range of products with a large global automotive industry consortium of western Europe, namely the Volkswagen group, may be noted as one of the most successful models in the future and become an backbone of bh metal industry. Beside mentioned, small medium companies benefit out of the export potential by realising an ambitious plans of the business expansion such as Unis Tok from Kalesija, Plamigo from Gračanica and CIMOS Group, TT Kabel from Široki Brijeg, Miviko from Posušje and Kapis from Tomislavgrad.

Statistics shown below:

<table>
<thead>
<tr>
<th>Machines, Engines, Appliances, Boilers, Vehicles, Weapon in BAM (1KM=0,51€)</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export</td>
<td>1.197.526.275</td>
<td>1.289.157.880</td>
<td>1.308.961.143</td>
</tr>
<tr>
<td>Import</td>
<td>2.837.952.364</td>
<td>2.875.376.188</td>
<td>2.887.636.983</td>
</tr>
<tr>
<td>E/I %</td>
<td>42</td>
<td>45</td>
<td>45</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Metal ores, Base metals in BAM (1KM=0,51€)</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export</td>
<td>2.027.052.159</td>
<td>2.029.574.511</td>
<td>1.859.460.343</td>
</tr>
<tr>
<td>Import</td>
<td>1.396.785.362</td>
<td>1.330.367.218</td>
<td>1.402.837.106</td>
</tr>
<tr>
<td>E/I %</td>
<td>145</td>
<td>153</td>
<td>133</td>
</tr>
</tbody>
</table>

Overall, the cross-section of metal industry performance for the period 2010-2013 (nominal values and the growth rates of sub-sections) clearly shows that there are very encouraging trends mirrored by the fact that the fastest growing categories are those we consider to be the most sophisticated production sub-segments such as Automotive Parts and Machinery and Mechanical Appliances. Automotive parts went up to 13,4 of total WP export. German market is the largest export market with 69.5 million BAM worth of exports of Automotive parts or a 26.1 % share of the total automotive industry.
AUTO COMPONENTS PRODUCTION

In a group of companies involved in auto components supply at present, the majority is in metal processing – over 70% and plastics – about 15%. Certain number operates in electrics and electronics and a few in other segments of automotive supplies, such as filters, batteries, spark plugs, fuses and rubber parts.

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

Thermoplastic processing also follows the trend of development and some companies are already recognized exporters. Bekto Precisa Gorazde, a modern and well-equipped manufacturer of (thermo) plastic injection parts, exports over 90% of overall production, the most to the EU. Buplast Bugojno is serving other automotive suppliers in BH, like Tesla Brcko and Unico Filter Tesanj.

Very important and successful segment of auto components supply in Bosnia and Herzegovina is production and export of textile and leather seat covers and accessories to major global automotive players (Prevent, Car Trim..)
CUSTOMERS AND EXPORT

In order to enforce the export structure of bh products it is important to follow a higher participation of the products with the higher value added and the companies with the greatest chances for that are the companies in charge of motor vehicles production and those that created its place at the value chain of the global automotive companies.

Consequently, exports to the automotive industry became the fastest growing category with a double-digit increase of 26.3% joy up to 266.3 million BAM in 2013. Looking in more detail at the automotive industry, Automotive Parts accounted for 80.4% of total exports yet direct production of cars and other vehicles continued to hold a modest share of the automotive industry at 9.4% or 25.1 million BAM respectively. Accordingly, the foreign trade deficit for the automotive industry totaled 525.5 million BAM with the lowest export/import ratio of all MP categories at a timid 33.6%.

Main export indicators for the Metal Processing (Automotive) industry.

<table>
<thead>
<tr>
<th>Structure (%)</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aluminum jointery</td>
<td>10.6%</td>
<td>10.3%</td>
<td>10.1%</td>
<td>9.9%</td>
</tr>
<tr>
<td>Other base metals jointery (iron, steel etc.)</td>
<td>20.8%</td>
<td>23.0%</td>
<td>25.8%</td>
<td>22.7%</td>
</tr>
<tr>
<td>Base metal jointery production</td>
<td>31.4%</td>
<td>33.3%</td>
<td>35.9%</td>
<td>32.6%</td>
</tr>
<tr>
<td>Metal construction elements</td>
<td>23.2%</td>
<td>21.6%</td>
<td>20.7%</td>
<td>19.8%</td>
</tr>
<tr>
<td>Other metal products</td>
<td>4.5%</td>
<td>3.9%</td>
<td>4.1%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Machinery production</td>
<td>31.3%</td>
<td>31.1%</td>
<td>28.4%</td>
<td>30.1%</td>
</tr>
<tr>
<td>Metal products</td>
<td>59.0%</td>
<td>56.6%</td>
<td>53.1%</td>
<td>54.0%</td>
</tr>
<tr>
<td>Automotive parts</td>
<td>9.6%</td>
<td>10.1%</td>
<td>11.0%</td>
<td>13.4%</td>
</tr>
<tr>
<td><strong>Total MP industry</strong></td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Foreign Trade Chamber of B&H.

Looking in more detailed at the MP industry structure, there is an evident trend from year to year of the rising importance of those sub-segments with the higher added-value: Machinery and Automotive Parts. Explicitly, machinery production in 2013 accounted for 30.1% of total MP, export being the largest sub-segment category, and Automotive Parts went up to 13.4% of total WP export. The most important segments in the machinery production industry were the Production of Parts for Engines with 112.3 million BAM or 18.8% of total Machinery exports (or 5.6% of total MP exports).

Next were Parts for Cranes with 71.3 million BAM or 11.9% of Machinery exports (3.6% of total MP exports) and Roller Bearings with 68.8 million BAM or 11.5% of machinery production (3.5% of total WP exports). Consequently, these three machinery sub-segments accounted for more than 40% of the total export of machinery production.

Metal Construction continued to shrink in 2013 holding a 19.8% share of the MP industry as of 2013, representing the third largest segment of the MP industry. Other Metal Products managed to keep its share of 4.1% of the total MP industry.
As it is visible from the graphs above the automotive industry differs slightly from the above explained market structure with the Luxembourg market being the second most important with 46.6 million BAM or 17.5% of automotive industry exports where the only export goods are automotive parts. The German market is the largest export market with 69.5 million BAM worth of exports of Automotive Parts or a 26.1% share of the total automotive industry. The automotive industry is one of the brightest examples of this fast expansion and good innovation supported by cooperation with large European producers where some segments of their outsourcing are pledged to B&H producers, such as the very successful stories of Prevent, CIMOS and FAD Jelah.

Average net wage is app. 300 EUR.

**WHY TO INVEST IN AUTOMOTIVE SECTOR IN BIH?**

- Strategic location
- Long and extensive tradition in auto-components supply
- Highly qualified and affordable labour force
- Availability of research and development institutes (6 Faculties of Mechanics)
- Price competitive environment, average net wage 300 €
- Stable and convertible currency linked to EURO
- Quality production – ISO and industry certificates
- Equipment mostly of EU origin, especially from Germany
- Infrastructure in place and energy sources available

With all the recent strategic movements and industry renewal in B&H, auto components supply chain has a good prospective to develop further and serve the needs of the wider region. To materialize these potentials, automotive sector seeks for increased capital equipment investments, new technologies and access to the new markets, what can be met with strong strategic partners or large integrator companies which intends to move their production, or assembling activities at lower cost regions.
HUMAN RESOURCES AND EDUCATION

Human resources with technical skills and expertise are the most favourable advantage for investing in Auto components sector in Bosnia and Herzegovina. Educated and skilled labour force is still abundantly available throughout the country particularly for the automotive and metal processing industry.

According to the USAID Survey, auto components sector of Bosnia and Herzegovina mobilized app.4545 employees in 36 companies. (BH Statistic Agency).

Another advantage of B&H is the high density of research and development institutes, which are the base for effective cooperation with the companies and meeting their development needs. On the other hand, a rise in the number of employees was registered in all other MP sub-segments, except for the manufacture of Other Transport Equipment, which brightens the overall labor market framework for the MP industry in 2013.

Education system and universities of mechanical and other related sciences exist and having proved successes in cooperation with the companies in metal and automotive sector in previous years. Especially the faculties of mechanical engineering co-operate closely with the local companies of the automotive supplier industry in a number of R&D-projects.

At present the most reliable education and research sources are:
- Faculty of Mechanics, University of Sarajevo (Division: Engines and Vehicles)
- Faculty of Mechanics, University of East Sarajevo
- Faculty of Mechanics, University of Banja Luka
- Faculty of Mechanics and Computers, University of Mostar
- Faculty of Mechanics, University of Zenica (Division for Motor Vehicles)
- Faculty of Mechanics, University of Tuzla

INVESTMENT OPPORTUNITIES

- High quality and reliable suppliers
- Good educational base
- Innovations
- Infrastructure and energy availability are the focal points of promises to potential investors
- Qualified working force
- Availability of halls and facilities
LEGAL FRAMEWORK

According to the Law on Foreign Direct Investment Policy in B&H there are no any restrictions and limitations regarding automotive products and automotive components production industry in general when it comes to the foreign investor who is allowed to be a 100% owner of the metal company at the B&H territory and has the same rights as local owner. They are allowed to freely open a bank account in any commercial bank and make transactions in currency they are obliged to.

Foreign investor enjoys equal status, rights and duties as domestic legal and physical persons. A foreign investor enjoys full legal security and legal protection in respect of rights acquired by virtue of the investment. Rights of foreign investor are acquired in the moment of registration of the legal documents and cannot be deteriorated by subsequent alteration of laws and other regulations. Company with foreign investment enjoys equal legal status and carries on its business under equal conditions and in an equal manner as domestic companies do.

FDI IN AUTOMOTIVE SECTOR

According to the statistical data total income of FDI of metal (automotive) production by the end of December 2013 was 527.8 million BAM that presents 4,8% of the total foreign investments. Most of that amount was invested in to a production of the:

- spare parts of the motor vehicles - 34.5%
- finished products of metal, except machines and equipment - 33.4%
- electric products and equipment - 16.7%
- base metals - 9.3%.
- Machines and different devices - 6.0%

Investment activities within the total foreign investments in the metal sector - December 2013

Source: CBB&H, FDI Balance by activities NACE Rev 2

Foreign investor’s access in to a metal sector would have enabled flow of local company’s access towards new technologies, knowhow system and administrative skills. That also includes domestic companies into a regional and global business networks as well as additional capital for investments in order to increase productivity and competitiveness of the companies. Metal sector has attracted respectable global and regional foreign companies that accompanied bh metal sector in to a process of globalization and regionalization as we can see at the table above.
<table>
<thead>
<tr>
<th>Company</th>
<th>Foreign investor's country</th>
<th>Foreign investor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car Trim d.o.o. Žepče</td>
<td>Germany</td>
<td>Car Trim GMBH</td>
</tr>
<tr>
<td>Unico Filter d.o.o. Tešanj - Mann Hummel</td>
<td>Germany</td>
<td>Mann + Hummel</td>
</tr>
<tr>
<td>Prevent</td>
<td>Germany</td>
<td>Prevent group</td>
</tr>
<tr>
<td>Jajce Alloy Wheels d.o.o. Jajce</td>
<td>Croatia, Germany</td>
<td>Miroslav Leko, Hans-Hubert Brock</td>
</tr>
<tr>
<td>Presal Extrusion d.o.o. Široki Brijeg</td>
<td>Italy</td>
<td>Presal Extrusion</td>
</tr>
<tr>
<td>Emka d.o.o. Goražde</td>
<td>Germany</td>
<td>Emka Group</td>
</tr>
<tr>
<td>Mann Hummel doo d.o.o. Tešanj</td>
<td>Germany</td>
<td>Mann + Hummel</td>
</tr>
<tr>
<td>FAD d.d Jelah</td>
<td>Slovenia</td>
<td>Prevent Group</td>
</tr>
<tr>
<td>Strolit d.o.o. Odžak</td>
<td>Slovenia</td>
<td>EM PK d.o.o. Podveza</td>
</tr>
<tr>
<td>Bekto International d.o.o. Goražde</td>
<td>Austria</td>
<td>Bekto GmbH</td>
</tr>
</tbody>
</table>

The list of the foreign investment companies in the auto sector made by FIPA.
SUCCESSFUL STORIES

1. Prevent BH d.o.o. (Germany)

“Prevent Group employs more than 10,000 people at 35 locations around the world and is constantly expanding their range of services. Prevent operates in Bosnia and Herzegovina since 1999. It started with 50 employees and today it has over 5000 employees, 9 companies and 7 locations. Prevent BH operates under 4 divisions: seat covering, materials (where they produce leather and textile), metal (where they produce break disks for renowned customers in European automotive sector). Also Prevent BH has a non-automotive division. This division operates within nautical and protective clothing division which is the core business of Prevent Group since 1952. This year Prevent Group celebrates its 60th and 20th anniversary - 60th from the very founding of Prevent Group in Slovenia and 20 years since the establishment of its headquarters in Germany.”

Mr. Almir Jazvin, Managing Director - statement:

Why Bosnia and Herzegovina? Bosnia and Herzegovina has a cultural position in terms of its industrial culture and experience over the last 100 years, it also holds a major infrastructure advantage, it has its proximity – it’s very close to the European market and therefore we are very close to our customers and that’s one of the pillars of Prevent’s experience with its customers.

Moreover the favorable tax system provides a unique advantage and a position to international investors and foreign direct investment that is one of the most significant advantages of Bosnia and Herzegovina for attracting foreign investments.
2. Bekto Precisa Goražde and Hella-Bekto Industries Goražde (Germany)

“Bekto Precisa was established in June 2005. Today, it employs over 350 young, promising employees with a tendency towards further development. Bekto Precisa is very well placed on the national and also international market range. Bekto-Precisa is dealing with the production of highly sophisticated tools for plastic and non-ferrous metals, as well as a combination of metal-plastic. In sections of plastics, they inject positions for auto, electrical, sports, mechanical and other industries, all in accordance with the regulations of European standards and requirements of customers.

Out of Gorazde sensors parts, light emitting and operating elements for the automotive industry are being transported for assembly at BMW, AUDI, MERCEDES, VOLKSWAGEN, TOYOTA, MAZDA, OPEL, FORD, FERRARI and others. Winter Olympic Games had some of their product components introduced on sport skis and equipment by FISCHER & MARKER. Hella Bekto Industries, established with the German partner, is dealing with street lighting fixtures LED technology.”

Mr. Nurija Vesnic, Director, Hella-Bekto Industries Goražde - statement

Statement: It is a joint venture of German company “Hella” and Bosnian companies “Bekto Precisa”. On this occasion, I would point out the importance of “Bekto Precisa” that from 196 was in this area. Local community’s supports and qualified workforce respond to these requirements that is an important segment of the arrival of “Hello” in this area. I would point out also that the realization of its operations in fiscal 2011/2012 year has been recorded at 4.8 billion Euros.
3. Kolektor Bosna d.o.o. Laktaši (Slovenia)

„Kolektor Bosna“ is respectable a trans-national company connecting almost 30 companies on strategic world markets. The groupžs companies are organizationally bound under the branch principle. Developmentally as well as business-oriented, the programs are managed in the business divisions. It is Slovenian investment that is registered 2011 with 168 employees. The company provides wide program of commutators, rotors, electronic, magnetic and hybrid components including also electronic sub-systems and plastic products for exterior and interior of vehicles.

Long tradition and rich experience regarding development, production and supportive services in the field of automotive components make Kolektor a reliable partner for integral solutions. Kolektor meets all requirements under the ISO TS 16949 as well as specific standards of automotive producers.

USEFUL CONTACTS

Foreign Trade Chamber of B&H.................................................................................www.komorabih.ba
Ministry of Industry, Energy and Mining of Republika Srpska.......................................www.vladars.net
Chamber of Economy of Federation of B&H.................................................................www.kfbih.com
Chamber of commerce and Industry of Republic of Srpska........................................www.komorars.ba