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INVESTMENT IN KOSOVO

7TH EDITION

2014

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The information contained in Investment in Kosovo is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Dear reader,

This brochure presents an overview of key issues for those considering investing or doing business in Kosovo. The information presented here has been carefully researched, and all efforts have been made to ensure the information is correct and reflects the current situation as of April 2014, unless otherwise stated.

Investment in Kosovo offers a brief look into the history and development of the political, economic and social structures of Kosovo. The newest state in Europe has been gifted with enviable human and natural resources, from minerals to fertile agriculture land, from a young and dynamic labor force to a favorable central location in the region. The combination of these assets demonstrates overwhelming potential for investors and will surely contribute to the growth of the Kosovo economy.

Due to the continuous growth and constant change in Kosovo, it is important to obtain further, current information before making any investment decision. We would appreciate the opportunity to assist you in planning and implementing your investment in Kosovo.

For further information or inquires on any matters discussed in this publication, please feel free to contact us.

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GENERAL INFORMATION

FAST KEY FACTS

Area

10,908 sq. km

Land Use

53% agriculture, 41% forests

Population

1,815,606 (est. 2012 Kosovo Agency of Statistics)

Average Monthly Labor Costs

EUR 360 (skilled and well educated work force, 2012 est.)

Capital

Pristina (est. population 205,133)

Official Languages

Albanian, Serbian

Currency

Euro

Source: Investment Promotion Agency of Kosovo-IPAK.

A BRIEF HISTORY OF KOSOVO

At the heart of the Balkans, Kosovo was part of the Roman Empire, then Byzantium, and part of the Ottoman Empire in the early 15th century. Kosovo became part of Serbia prior to the First World War, and part of Yugoslavia just after it. In the Socialist Federal Republic of Yugoslavia (SFRY), Kosovo enjoyed a certain degree of autonomy from 1974 to 1989. The SFRY began to break up during the early 1990's with Slovenia, Croatia and Bosnia and Herzegovina breaking away from the state. During 1998 the Serbian police and military took a brutal campaign against ethnic Albanians in Kosovo which led Kosovo in the war.

During this campaign over 800,000 ethnic Albanians were expelled by force from their homes in Kosovo and tens of thousands of people were killed.

As a result of the brutal campaign and ethnic cleansing the International community attempted a settlement at the Rambouillet Accords, which offered autonomy for Kosovo alongside a NATO presence. Serbia's failure to agree led to 78 days aerial bombing on the Federal Republic of Yugoslavia (F.R.Y.).

UN Security Council Resolution 1244 (1999) placed Kosovo under a transitional administration, the UN (Interim Administration) Mission in Kosovo (UNMIK). Under the resolution, Serbia's territorial integrity was protected, but it was UNMIK that assumed responsibility for governing Kosovo. KFOR, the NATO-led peace implementation force, provided military security in Kosovo.

In 2001, UNMIK promulgated a Constitutional Framework, which established Kosovo's Provisional Institutions of Self-Government (PISG). A UN-led process began in late 2005 to determine Kosovo's future status. Negotiations held intermittently between 2006 and 2007 on issues related to decentralization, religious heritage, and minority rights failed to yield a resolution between Serbia's willingness to grant a high degree of autonomy and the Albanians' call for full independence for Kosovo. On February 17, 2008, the Kosovo Assembly declared its independence from Serbia, which was recognized by the USA, the majority of EU countries and other nations. Since then, the Republic of Kosovo has been an independent, sovereign and democratic country and a potential candidate for European Union (EU) membership.

In June 2013, the EU decided to open negotiations with Kosovo on a Stabilization and Association Agreement (SAA) after concluding that Kosovo had "met all the short-term priorities" identified in the *Feasibility Study* and "taken very significant steps towards visible and sustainable improvement in relations with Serbia." The SAA with the EU is the first formal step towards eventual EU membership. Negotiations are scheduled to start during autumn 2013 and—with a political focus on related obligations—could be concluded as early as mid- 2014. Parallel talks taking place on visa liberalization (Kosovo remains the only country in South East Europe whose citizens are not able to travel visa-free to the EU). The Government of Kosovo is hopeful that EU countries will take a decision to abolish visas for Kosovo citizens in 2014.¹

¹ *The World Bank in Kosovo, Country Snapshot, October 2013.*

GEOGRAPHY AND CLIMATE

Kosovo, the newest state worldwide is situated in the central part of the Balkans. In the Southwest, it is bordered by Albania, in the West by Montenegro, in the North by Serbia and in the East and Southeast by Macedonia.

Kosovo covers a surface area of approx. 10,908 km² and is characterized by an average altitude of 800 m above sea level. The lowest point of Kosovo is located at an elevation of 297 m, Drini i Bardhë (White Drin River), at the border to Albania. The country rises up to its highest point in the South of Kosovo – Gjeravicë at 2,565 m.

The Bjeshkët e Nemuna or Albanian Alps divide Kosovo from Albania in the south-west while Kopaonik Mountain in the north, borders Serbia. The central region of Drenica and the eastern part of Kosovo are mainly hilly. Between these hills and the surrounding mountains are 2 plains - the Rrafshi i Dukagjinit basin in the western part, and the Fushë Kosovë plain in the eastern part. The river Drini i Bardhë (White Drin) runs from western Kosovo toward the Adriatic and the Ibri snakes across the north of the country.

The climate is continental with some Mediterranean and alpine influences, characterized with warm summers and cold and snowy winters. The temperatures range from +35° C in summer, to -20° C in the winter.

The administrative capital and the largest city is Pristina (in Albanian: Prishtina), while other big cities are Prizren, Peja, Mitrovica, Gjilan, Ferizaj, Gjakova etc.

POPULATION AND LANGUAGE

Dynamic Population Changes

Estimates of Kosovo's population range from 1.9 to 2.2 million. The population censuses conducted in 1981 and 1991, estimated Kosovo's population at 1.6 and 1.9 million respectively. According to the Kosovo Agency of Statistics, from the preliminary results of the last census made in early 2011, Kosovo's population was 1,733,872, in 2012 Kosovo's population is estimated at 1,815,606 (Kosovo Agency of Statistics). The population density is close to 200 per square kilometer, one of the highest in Europe.

Its ethnic composition according to Kosovo Agency of Statistics in 2011 was 92% Albanian, while the largest minority is represented by Serbians who comprise about 5.3% of the population. Other minority groups include Bosnians, Turks, Roma, Goranis, Ashkali and Egyptians with a total of 2.7%.

A large proportion of the Kosovo population emigrated in the 1990s to Western Europe. Pristina, the capital city has a population of 205,133 inhabitants. The population in Kosovo has been growing steadily over since World War II. The largest increase has been through the Albanian community while the Serbian population has in overall stayed stable. Future trends of population growth in Kosovo are difficult to predict. However, the overall population is expected to continue to rise well into this century. The Albanian language belongs to the Indo-European language family.

Languages

The official languages in Kosovo are Albanian and Serbian. The majority of the population speaks Albanian. Serbian, Bosnian and Croatian are spoken by minorities. A very large number of people also speak English, German and other European languages. The texts of Kosovar Legislation exist in English, Albanian and Serbian.

GOVERNMENT AND POLITICAL SYSTEM

Form of The Government

Kosovo is a Parliamentary Republic. The official name of the country is “Republic of Kosovo” (in Albanian: Republika e Kosovës). On 8 April 2008 the Constitution of Kosovo was approved by the Assembly of Kosovo and entered into force on 15 June 2008.

The President of the Republic of Kosovo proposes to the Assembly a candidate for Prime Minister, in consultation with the political party or coalition that has won the majority in the Assembly, necessary to establish the Government, which is finally approved in the Assembly.

LEGISLATIVE STRUCTURE

The Assembly of Kosovo (the Parliament), has 120 members. It is elected every four years through a general election. According to the Kosovo Constitution, the Assembly of Kosovo elects the President for a five-year term.

JUDICIAL SYSTEM

The judicial system consists of the Constitutional Court, the Supreme Court, District Court, Municipal Courts, Minor Offence Courts and District Economic Court.

According to the Kosovo Constitution, the basic unit of local government in the Republic of Kosovo is the municipality. The establishment of municipalities, municipal boundaries, competencies and method of organization and operation are to be regulated by law.

EU MISSION – EULEX

The European Union Rule of Law Mission in Kosovo (EULEX) is the largest civilian mission ever launched under the Common Security and Defence Policy (CSDP). The central aim of the mission is to assist and support the Kosovo authorities in the rule of law area, specifically in the police, judiciary and customs areas. EULEX's mission officially started on 16 February 2008. Its mandate is until 14 June 2014.

EULEX, the new mandate of the EU Mission in Kosovo, which officially began on February 16 February 2008, is to strengthen Kosovo institutions, legal authorities and agencies for law enforcement.

DEFENCE

KFOR

Security in Kosovo is guaranteed by KFOR, a military force which consists of troops contributed by 30 nations, under NATO command. KFOR entered Kosovo on 12 June 1999. It very quickly restored peace and order in Kosovo and is now working with the Kosovo Government and continuing to provide security.

Kosovo Security Force (KSF)²

The Kosovo Security Force (KSF) is a new, professional, multi-ethnic, lightly armed and uniformed Security Force that is subject to democratic, civilian control. The KSF mission is to represent and protect all the people of Kosovo. The Ministry for the Kosovo Security Force (MKSF) is responsible for exercising civilian control over the Kosovo Security Force (KSF), including management and administration.

²Source: <http://www.mkfsf-ks.org>

INFORMATION SPACE: ³

GOVERNMENT AGREEMENTS AND TRADE REGIME

Central European Free Trade Agreement – CEFTA

Since July 2007, UNMIK Kosovo, with the given Authority to represent Kosovo in foreign affairs, signed its membership to CEFTA, making possible investors entering Kosovo, accessing a market of 28 million people and taking advantage of a free trade.

EU Market

In addition, Kosovo enjoys customs-free access to the EU market based on the EU Autonomous Trade Preference (ATP) Regime as well as customs-free access to the US market.

The Government of Kosovo is focused on making ongoing improvements concerning the business climate and in speeding up the regional and European integration of Kosovo.

Kosovo's Trade Regime

Kosovo has a liberal trade regime, from which derive three major benefits, namely improved export possibilities, a better investment environment, and stable relations with its neighbors.

The Customs Code is based on the EU Customs Code and is fully compliant with WCO agreed rules on customs procedures and the Harmonized Commodity Description and Coding System.

³Source: *IPAK- Eciks- Investing in Kosovo guide*.

VISA SYSTEM FOR FOREIGNERS TRAVELING TO KOSOVO

The Republic of Kosovo implemented a visa regime on 1 July 2013 for 87 countries. From this date onwards citizens of these countries will need to apply for a visa through the Diplomatic missions of the Republic of Kosovo in order to be allowed entry to the Republic. The 87 countries consist of all former Soviet Union republics not EU members, African countries, Asian countries (including China and India), Caribbean countries and countries in South America⁴.

As before, any foreigner who intends to stay longer than 90 days in Kosovo will need to report to the Directorate for Foreigners at the Kosovo Police.

Foreign nationals, subject to the *Law on the Status, Immunities and Privileges of Diplomatic and Consular Missions and Personnel in Republic of Kosovo and of the International Military Presence and its Personnel*, as well as foreign nationals, **holders of UN Travel Documents**, are exempted from the obligation of visa possession.

Foreign citizens, who are subject to the visa regime application, but have a valid multiple entry Schengen visa will be allowed to enter the Republic of Kosovo and stay up to 15 days without applying for a Kosovo visa.

The exemption from the visa requirement applies to the citizens of the countries as shown in Chart 1.

Chart 1 - Country

Antigua and Barbuda	Argentina	Australia
Bahamas	Bahrain	Barbados
Belize	Brunei Darussalam	Bulgaria*
Botswana	Dominica	Grand Duke of Luxembourg
El Salvador	United Arab Emirates	Federation of Micronesia
Fiji	Hungary*	Grenada
Guiana	Guatemala	Greece*
Marshall Islands	Seychelles Islands	Solomon Islands
Japan	Qatar	Canada
Kiribati	Columbia	Swiss Confederation*
Kuwait	Latvia*	Lesotho
Lithuania*	New Zealand	Malawi
Malaysia	Maldives	Montenegro

⁴Source: <http://www.mfa-ks.net/?page=1,87>

Kingdom of Saudi Arabia	United Kingdom and Northern Ireland*	Kingdom of Belgium*Kingdom of Denmark*
Kingdom of Jordan	Kingdom of the Netherlands*	Kingdom of Norway*
Kingdom of Spain*	Kingdom of Sweden*	Mexico
Mauritius	Namibia	Nauru
Nicaragua	Oman	Palau
Panama	New Papua Guinea	Paraguay
Poland*	Portugal*	Principality of Andorra
Principality of Liechtenstein*	Principality of Malta*	Principality of Monaco*
Republic of Austria*	Republic of Estonia*	Czech Republic*
Republic of Finland*	Republic of France*	Federal Republic of Brazil
Federal Republic of Germany*	Republic of Honduras	Republic of Ireland*
Republic of Iceland*	Republic of Italy*	Republic of Chile
Republic of Costa Rica	Republic of South Korea	Republic of Croatia*
Republic of Macedonia	Republic of Cyprus*	Republic of San Marino*
Republic of Serbia	Republic of Slovakia*	Republic of Slovenia*
Republic of Albania	Republic of Turkey	Romania*
Saint Kitts and Nevis	Saint Lucia	Saint Vincent and Grenadine
Samoa	Sao Tome and Principe	Holly See*
South Africa	Swaziland	State of Israel
United States of America	East Timor	Tonga
Trinidad and Tobago	Tuvalu	Uruguay
Venezuela	Vanuatu ⁵	

In addition, the exemption from the visa requirement applies also to the following categories:

- Citizens of the countries which are required to obtain a visa for Kosovo but hold a biometric valid residence permit issued by one of the Schengen member

states or a valid multi-entry Schengen Visa are exempt from the requirement to obtain a Visa to enter, transit, or stay in the territory of the Republic of Kosovo for up to 15 days.

- Citizens of: EU and Schengen Zone Member States, Holy See, Principality of Andorra, Principality of Monaco, Republic of San Marino, Republic of Albania, Montenegro, and Republic of Serbia are allowed to enter, transit, and stay in Kosovo for up to 90 days for a six-months period with a valid biometric identification card.
- Holders of diplomatic and service passports issued by Russian Federation States, People's Republic of China, Egypt, Indonesia and Ukraine shall be allowed to enter, transit or stay up to 15 days in the territory of the Republic of Kosovo.
- Holders of valid travel documents issued by Special Administrative Regions of People's Republic of China: Hong Kong and Macao are exempted from the obligation to obtain a visa.
- Holders of travel documents issued by Taiwan shall be exempted from the obligation to obtain a visa provided that they preliminarily notify the Diplomatic or Consular Mission of the Republic of Kosovo.
- Holders of Travel documents issued by EU Member States, Schengen zone States, United States of America, Canada, Australia and Japan based on the 1951 Convention on Refugee Status or the 1954 Convention on the Status of Stateless Persons, as well as holders of valid travel documents for foreigners, may enter, pass through the territory and stay in the Republic of Kosovo up to 15 days without a visa.
- Holders of Laissez-Passer, regardless of their nationality, issued by United Nations Organizations, NATO, OSCE, Council of Europe and European Union, are also exempt from the visa requirement⁶.

As indicated in Table no 1, there are nine land border crossings into Kosovo:

Table no 1

Land border crossings into Kosovo

Hani i Elezit (Municipality of Hani i Elezit) to Macedonia

Lleshaku (Municipality of Mitrovica) to Serbia

Gillobiçica (Municipality of Prizren) to Macedonia

Merdare (Municipality of Podujevo) to Serbia

Vërmica (Municipality of Prizren) to Albania

Dheu i Bardhë (Municipality of Gjilan) to Serbia

Kulla (Municipality of Peja) to Montenegro

Mutivoda (Municipality of Pristina) to Serbia

Zubin Potok (Municipality of Mitrovica) to Serbia

⁶ <http://www.mfa-ks.net/?page=2,158>

RESIDENCE OF FOREIGNERS

Foreigners in the Republic of Kosovo may work on the basis of a permit issued for residence and employment or a certificate for employment notification.

The residence of foreigners in Kosovo is governed by the provisions of the Law no. 04/L-219 “On Foreigners” (the Law on Foreigners) and the Administrative Instruction no. 01/2014 “On the procedure of issuance of residence permit for foreigners and the certificate for notification of work” (the Administrative Instruction). Under the Law on Foreigners, the term foreigner refers to any person who is not a citizen of the Republic of Kosovo.

The Department for Citizenship, Asylum and Migration (the “DCAM”), of the Ministry of Internal Affairs is empowered by the Law on Foreigners to evaluate all applications and issue residence permits to foreigners.

The Law on Foreigners foresees that an annual employment quota for foreigners should be approved upon decision of the Government of the Republic of Kosovo. The decision will define the annual quota of employment of foreigners for new permits and extension of existing ones, at the latest by 31st of October for the following year. The fees for obtaining the resident permit will be defined with a special secondary act issued by the Minister of the Ministry of Internal Affairs.

RESIDENCE PERMIT

There are three types of residence in the Republic of Kosovo: (a) short-term residence; (b) temporary residence and (c) permanent residence.

Short-term residence shall mean residence of a foreigner up to three months within the period of six months without visa or with visa, if required. The period of residence shall be calculated from the date of first entry in the Republic of Kosovo.

Temporary residence shall be granted to a foreigner who resides or his/her intention is to reside in the territory of the Republic of Kosovo, for the purpose of employment, employment of a posted worker, family reunion, education, scientific research, humanitarian grounds, including refugees, persons under subsidiary protection and victims of human trafficking or victims of migration, smuggling and foreigners who have willingly expressed cooperation with competent authorities. Notwithstanding the above, a temporary residence may be issued to a foreigner for other purposes as well.

The permanent residence permit may be granted to a foreigner who at the time of submission of the application has a temporary residence permit continuously for a period of five years in the Republic of Kosovo and meets the other criteria defined in the Law on Foreigners.

Pursuant to the Administrative Instruction, for obtaining temporary residence permit for the purpose of employment in Kosovo within the annual employment quota, the foreigner should provide the following documents to DCAM:

1. Valid travel document/passport. The passport should be valid for at least months after the expiry of the residency permit term;
2. Employment contract pursuant to the labor legislation in the Republic of Kosovo, exceptionally the employment contract shall not be requested to foreigners who are owners of businesses;
3. Evidences proving sufficient living means;
4. Criminal Record Certificate issued by the competent authorities in the country of origin;
5. Business Registration Certificate together with 'information about business' excerpt;
6. Proof on education, qualifications, and trainings of the foreigners, (i.e. foreigners who are business owners are excluded from this condition);
7. Health Insurance Policy with validity of at least one year duration from the date of application;
8. Evidence of vaccination in cases when the foreigner comes from a state where epidemic situation is declared.

In addition to the above the applicant should not have been subject to an entry ban in Kosovo.

This list of documents varies depending on the purpose of work in Kosovo (i.e. work with an NGO and/or volunteer job within the scheme of volunteer services).

Notwithstanding the above, the work permit may be issued outside the annual quota to the following categories of foreign citizens:

1. Daily immigrants based on reciprocity conditions;
2. Key personnel, service providers, employees and their family members, whose status is regulated by the Stabilization and Association Agreement and the interaction between the European Union and its stated and the Republic of Kosovo;
3. Foreigners working in private companies that are subcontractors of diplomatic missions that operate in Kosovo;
4. Foreigners transferred within internal transfer of staff within companies and other required staff determined in advance under the contract;
5. Foreigners self-employed in their own companies, having a greater share than 51% or having turnover of its own;
6. Foreign teachers teaching in educational institutions in one of the languages of ethnic minorities;

7. Professional athletes or sports activists working in Kosovo;
8. Foreign artists working in cultural institutions of Kosovo;
9. Foreigners having established employment relationships in companies, which are registered as a foreign companies in Kosovo and at least in three other countries;
10. Foreigners working under Youth Mobilization Program, which Kosovo carries out in cooperation with other states;
11. Foreign scientific researchers, foreigners employed in scientific positions, scientific-educational, or other work research positions with the legal entity that conducts scientific research;
12. Foreign language professors, lecturers and other teachers teaching at higher educational institutions or foreign language schools in Kosovo;
13. Foreigners working on the bases of international contracts, except the categories of foreigners referred in point (ii) above;
14. Foreigners performing major tasks for trading companies, associations, and foreign representations.

The list of documents required to be submitted with DCAM varies depending on the category of foreign citizens as listed above.

For obtaining temporary residence permit for purposes of employment outside the annual employment quota are required to be filed same documents as for foreigners applying for residence permit within the employment quota. In addition the following documents may also be required:

1. Business Registration Certificate along with 'Information about Business' excerpt;
2. Proof on education, qualifications, and trainings of the foreigner;
3. Proof that in trading company, association or foreign representation the foreigner has employed at least three citizens of the Republic of Kosovo in different jobs;
4. Proof that payment is the same with the amount of minimum wage in the Republic of Kosovo determined in previous year.

Whilst for obtaining the permanent residence permit, the foreigner in addition to possessing a temporary residence permit for five consecutive years in the Republic of Kosovo should also: (i) possess a foreign valid travel document; (ii) possess sufficient means for living; (iii) possess a medical insurance; (iv) have basic knowledge of one of the official languages of the Republic of Kosovo in writing and reading, knowledge on the culture and social establishment and (v) not constitute a threat to public order, state security and public health.

The Law on Foreigners provides additional circumstances for granting permanent residence permit to categories of foreigners.

CERTIFICATE ON EMPLOYMENT NOTIFICATION

In addition the Law on Foreigners provides for the possibility of obtaining a Certificate for Employment Notification for foreigners who intend to work in the Republic of Kosovo for a period up to thirty, sixty or ninety days within one year.

The Law defines categories of foreigners and the types of works that can be performed on the basis of certificate for employment notification for the respective periods. The certificate for employment notification is issued from the Department of Labor and Employment within Ministry of Labor and Social Welfare.

The requirements/documents foreseen by the Administrative Instruction for certificate on employment notification are as follows:

1. Employment contract, respectively, written certificate for employment contract or the adequate proof of work;
2. Proof of education, qualification, and trainings of the foreigner;
3. Proof on registration of company, association; branch, business, agency and organization in the Republic of Kosovo;
4. Administrative fee.

The provisions of the Law will not apply to foreigners as long their status is regulated under the law on status, immunity and privileges of diplomatic and consular missions, their staff, international military presence and their staff in Kosovo.

ACCOMMODATION

Whether for business or pleasure, Pristina offers excellent accommodation. For foreigners that have to stay longer in Kosovo, a rent of a house or an apartment may be more appropriate. The rental cost for 100 m² is approximately EUR 500 per month. There are many real estate agencies operating in Pristina that can assist foreigners in finding accommodation.

There are many pleasant restaurants that offer various combination of traditional Kosovo cuisine, Italian and Turkish dishes. A list of highly rated and popular hotels and restaurants is included in Appendix A.

WORKING HOURS

The public administration works five days a week, from Monday until Friday. The usual working hours are 08.00 AM - 16.00 PM.

TRANSPORTATION

Road Network: The road network consists of 630 km of main roads. A highway connecting Kosovo with Albania and Serbia is currently under construction.

Railway: Combined length of 330 km. It covers the entire territory, connecting both the south with the north and east with west⁷.

Air Transportation: As Pristina's International Airport has a capacity of one million passengers per year, it is considered the busiest airport of the region. The "Adem Jashari" International Airport is a 20 minutes drive from the center of Pristina. It connects Kosovo via direct flights to London, Vienna, Istanbul, Budapest, Zurich, Tirana, Frankfurt, Düsseldorf, Stuttgart, Hanover, Copenhagen, Stockholm and Gothenburg etc. A one-way taxi journey into the city costs approximately EUR 25-30.

TELECOMMUNICATION

There are 3 fixed telephony companies and 2 mobile telephony companies operating in Kosovo, at the time of writing. Three main internet service providers offer stable and broadband Internet, including DSL, Wireless, and Cable, at prices comparable with other European countries.

The Kosovo Government has re-launched its privatization effort of the national phone carrier, Post and Telecommunications of Kosovo (PTK), which provides both mobile and landline services

⁷Source: <http://www.eciks.org/english/index.php>

ECONOMIC SITUATION OVERVIEW

BASIC ECONOMIC INDICATORS

Kosovo's economy during 2012 continued to record positive economic growth despite the challenges caused by fluctuations in the global economy, particularly in Europe. During 2011 Kosovo sustained the highest growth rate of all countries in the region (5%). The high reliance of Kosovo's economy on imports adversely affected the growth rate and the current account deficit.

Remittances continued with their positive growth trend, representing one of the most important components of consumer financing in the country. Prices in Kosovo during 2012 were characterized by stability, recording an average inflation rate of 2.5%. Developments regarding the consumer basket content during this year were considered to have been positive, as the share of food products recorded a decline, which is a reflection of improvement of the overall standard in the country.

However Kosovo's economy is still characterized by a high unemployment rate, representing the main challenge to economic and social stability in the country. Growth rates of recent years are not sufficiently capable of absorbing the labor force in the country because of Kosovo's high proportion of young people.

Table no 2 as below presents the data trend regarding real GDP component compared to Central and Eastern European Countries.

Table no 2: Emerging Markets and developing economies

Central, South and Eastern Europe Countries	2007	2008	2009	2010	2011	Projections	
						2012	2013
Albania	5.9	7.5	3.3	3.5	3.0	0.5	1.7
Bosnia and Herzegovina	6.1	5.6	-2.9	0.7	1.3	0.0	1.0
Croatia	5.1	2.1	-6.9	-1.4	0.0	-1.1	1.0
Kosovo	6.3	6.9	2.9	3.9	5.0	3.8	4.1
FYR Macedonia	6.1	5.0	-0.9	2.9	3.2	1.0	2.0
Montenegro	10.7	6.9	-5.7	2.5	2.4	0.2	1.5
Serbia	5.4	3.8	-3.5	1.0	1.6	-0.5	2.0

Source: World Economic Outlook: Coping with High Debt and Sluggish Growth-IMF, October 2012.

Based on the available data, the economic recovery in 2011 appeared to be moderate. Kosovo marked the highest growth with a rate of 5% (4% in 2010), followed by Macedonia with a growth rate of 3.2%. The real GDP of Albania, Montenegro, Bosnia and Herzegovina, grew by 3%, 2.4% and 1.3%, respectively. Gross Domestic Product (GDP)⁸ during 2012 is estimated to have reached the value of EUR 5.02 billion (a real growth of 2.9%).

GDP per capita in Kosovo during 2012 reached a level of over EUR 2,750 compared to EUR 2,650 in 2011. The GDP growth per capita in nominal terms was lower compared to the previous years, yet the GDP growth estimated by the Purchasing Power Parity (PPP) was higher, reaching over EUR 7,400.

Implications to the Gross Domestic Product (GDP)

Private and public consumption is considered to have been the key driver of economic growth during 2012. Consumption in Kosovo's economy, in addition to the banking system loans, is also supported by remittances which reached EUR 605.6 million, representing a growth of 3.6%. The increase of the government expenditure for wages and salaries by more than 5% also drove consumption. Besides wages, the consumption of government goods and services has also positively contributed to the overall consumption, as it increased to over 6%. Trade balance continues to have a negative impact on GDP as a result of constant deficit within the goods trade.

However, the goods and services trade balance during 2012, in spite of being negative, had a lower level compared to the previous year by EUR 66.7 million or narrowing the deficit by 3.7%.

Macroeconomic Indicators Insight

Table no 3

Description	2007	2008	2009	2010	2011	2012
REAL SECTOR						
Nominal GDP (in m EUR)	3.379.4	3.710.7	4,077.0	4.136.5	4,486.0	-
Real GDP	6.3%	6.9%	2.9%	3.9%	5%	2.9%
GDP per capita (in EUR)	1.605	1.784	1.766	1.850	2.650	2.750
FINANCIAL SECTOR (IN MILLION EUR)						
Foreign direct investment (received)	440.7	366.5	287.4	361.7	394.6	232.0

Source: 1) Monthly Statistic Bulletin (Central Bank of Republic of Kosovo (CBK), December, 2012 a) International Monetary Fund (2008-2012); b) Kosovo Agency of Statistics.

⁸The source of data on GDP come from Kosovo Agency of Statistics and the International Monetary Fund, World Economic Outlook, October 2012.

Total Investments

Foreign Direct Investments (FDI) are among the major sources of finances as an important component of the investment activities in Kosovo. According to the Central Bank of Republic of Kosovo (CBK), the overall investments in Kosovo marked positive developments.

Foreign Direct Investments

Foreign Direct Investments (FDI) is one of the main sources of finance concerning investment activities in the country. In 2012, FDI in Kosovo were EUR 232 million or 41.2% lower than in 2011. While Kosovo resident investments in other countries recorded a slight growth of 0.8% and reached EUR 15.8 million, Kosovo resident direct investments are mainly capital investment, which in majority of cases are purchases of real estate.

FDI in Kosovo during the period 2008 - 2011 maintained a similar share of 8.3% to GDP on average. As a result of global financial crisis, during 2009, FDI recorded a more significant decline, while in 2010 - 2011 the value of these investments started to increase slowly. Meanwhile, the trend deteriorated significantly in 2012, reaching 5% of GDP. This deterioration in the trend demonstrates that FDI has grown/diminished against developments in the economy of euro area countries, which at the same time represent the main resource of FDI in Kosovo. The financial sector, which in the two previous years is found to have recorded a significant decline in total FDI, in 2012 recorded a slight increase and it is also expected to increase in 2013, as a new bank commenced its operation in Kosovo's banking system. EU countries continue to represent the key resource of FDI in Kosovo.

Inflation

In 2012, the general economic developments in Kosovo had a positive tendency with inflationary pressures lower compared to the previous year. The Gross Domestic Product, despite having a slight decline compared to the previous year, remained at the highest level in Southeastern Europe. General developments of prices were stable, while inflation recorded a decline compared to the previous year and it was only 2.5% compared to the previous year (7.3%). Prices in Kosovo during this year were characterized by stability, recording an average inflation rate of 2.5%. Developments regarding the consumer basket content during this year were considered to have been positive, as the share of food products recorded a decline, which is a reflection of improvement of the country's overall standard of living.

Unemployment

The number of unemployed people in Kosovo has declined. However, the high level of unemployment remains a constant challenge in Kosovo, whereas the current economic growth rate is insufficient to absorb the constant growth of labour force in the country. Nevertheless, the relatively high level of remittances is contributing in softening this burden of the country's economy. Taking into consideration the constant growth of labour force in the country, which results from the high proportion of

young people, the current economic growth rate is considered to have low absorbing capacities for the labour force.

According to the results of the Labour Force Survey published by KAS, the unemployment rate in Kosovo, in the first half of 2012, was 35.1%.

Public Finance

Budget revenues, without taking into account donor grants and trust funds, reached the value of EUR 1,537.95 million in 2012 representing an annual growth rate of 18%. As a consequence of this growth in GDP, the share of the budget revenues to GDP decreased to 30.6%, compared to the share of 37% recorded the previous year. Revenues collected from border taxes represent the highest share of budget revenues (57.6%). However, the share of border tax revenues decreased to 8.5% as a consequence of the growth of other categories or establishment of new categories within the budget revenues. The value of border revenues in 2012 reached EUR 844.86 million and recorded an annual growth of 2.1% (a growth of 18.1% in 2011).

INFORMATION SPACE

LABOUR FORCE TREND IN KOSOVO

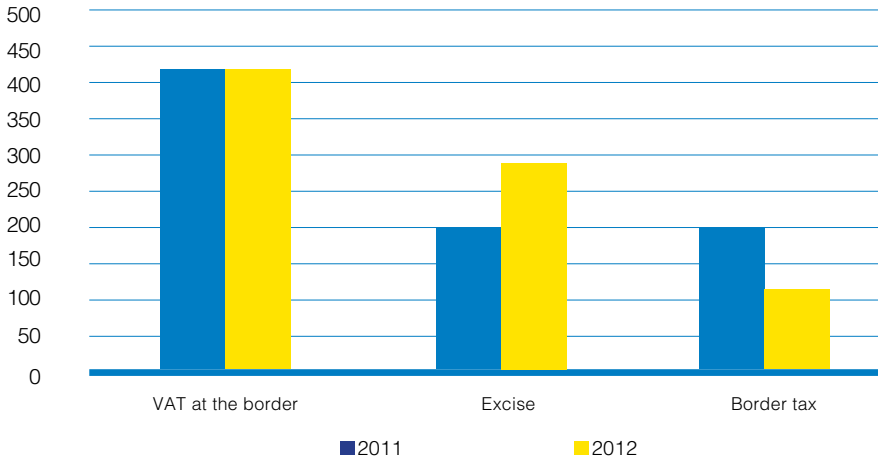
Labour force: In January 2012 the Kosovo Agency of Statistics, supported by UKAid DFID, developed the Labour Force Survey using, for the first time, modern CAPI technology. The purpose of the Labour Force Survey 2012 in Kosovo is to provide statistical data on labour market indicators and other related issues and also to enable comparisons to be drawn with previous years, to the extent that comparisons are possible.

The Labour Force Survey 2012 report contains data on employment and unemployment by age, gender, employment status, economic activities, occupations and other areas of the labour market. The labour force participation rate of working age people, is 36.9%. The unemployment rate is higher among women than men. The unemployment rate is higher among young people.

Source: Kosovo Agency of Statistics (KAS).

Graph no 1 below represents main sources of border income, in millions of Euro.

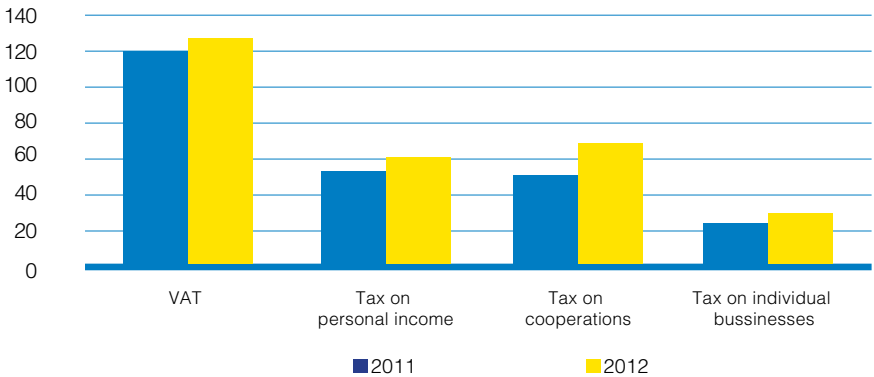
Graph no 1



Source: Ministry of Finance 2013.

Graph no 2 below represents main income sources of domestic taxes, in millions of euro.

Graph no 2



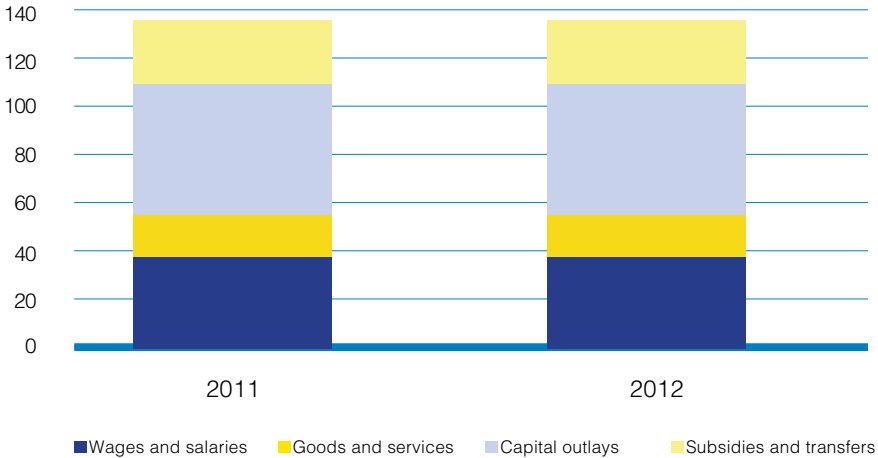
Source: Ministry of Finance 2013.

Budget expenditures, without including grants defined by donors as trust funds, in 2012, reached the value of EUR 1.46 billion, or 22.2% of GDP (29.5% of GDP in 2011). Government expenditure in 2012 recorded an annual growth of 5.7%, which is a slower growth rate compared to the growth of 9.1% in 2011. The deceleration of the growth of the total budget expenditure was mainly driven by the increase of wages and salaries during this period. The government expenditure dedicated to consumption was 11.5% of GDP, while the government expenditure for capital outlays was 11% of GDP⁹.

Similar to the previous years, capital outlays in 2012 continued absorbing the largest share of budget expenditures, with a share of 37.8% (38.3% in 2011). Capital outlays in 2012 reached the value of EUR 550.24 million representing an annual growth of 4.2%.

Graph no 3 below represents the structure of main categories of budget expenditures, in millions of euros.

Graph no 3



Source: Ministry of Finance 2013.

⁹Source: Consumer expenditures include wages and salaries and goods and services, while capital outlays include investments.

INFORMATION SPACE:

Review of Kosovo Financial Agreement with the International Monetary Fund (IMF)

Since 2010, Kosovo signed for the first time the financial agreement with International Monetary Fund (IMF), granting a Stand-By-Agreement (SBA) loan. The SBA aims at addressing the majority of budgetary needs.

The Executive Board of the International Monetary Fund (IMF) completed the second review of Kosovo's economic performance under the SBA program. The completion of the review enables the disbursement of about EUR 40.66 million, bringing total disbursements under the arrangement of about EUR 91.24 million.

In completing the review, the Executive Board approved the re-phasing of the remaining disbursements under the SBA, to align program reviews with the authorities' budgetary calendar. The Board also approved the authorities' request for the modification of the performance criterion on the end-December 2012 bank balance of the general government.

The SBA with Kosovo was approved on April 27, 2012 in a total amount of EUR 106.12 million, to be disbursed within 20 months.

Following the Executive Board's discussion IMF high representative states the following progress evaluation:

“Macroeconomic and financial policies are on track, notwithstanding a slowdown in economic growth that has complicated the meeting of fiscal targets. The authorities' intend to treat the arrangement as precautionary in 2013, provided the return of the government's bank balance to a fully adequate level is ensured.

The 2013 budget brings Kosovo close to a fully sustainable fiscal stance. An allocation for starting construction for a new highway R6 to Macedonia will be executed only once the government bank balance is close to a fully adequate level, and a feasibility study confirming viability of the project has been completed. Careful preparation and costing of spending initiatives remain critical to avoid that unfunded expenditure commitments put fiscal sustainability at risk. Legislation is in preparation for a rules-based fiscal framework that would anchor fiscal policy from 2014.”

Source: IMF press release, 20 December 2012.

FINANCIAL SECTOR

During 2012, the financial sector in Kosovo was characterized by a recuperation of its trend for growth compared to the previous year. The growth of financial sector sustainability in 2012 was mainly driven by recuperation of the growing trend of assets of the insurance sector and pension funds, while the banking system assets continued to grow slowly. The financial sector in the country basically provides traditional financial services. Commercial banks' credit activity is mainly supported by the deposits collected in the country. According to CBK, the banking system still represents a high degree of concentration, despite the decline of the share of the largest banks in the market.

The total value of financial sector assets reached EUR 3.8 billion in 2012, which represents an annual growth of 9.7% (in 2011 this growth was 9.2%).

Regarding the structure of financial sector assets in Kosovo, commercial banks continued to be the major participants, managing 74% of total assets of the sector. During this period, it was noticed that the share of pension funds and insurance companies recorded a growth of 19.5%, respectively 3.4% (17% and 3.2%, respectively, in 2011). The same as in the previous year, microfinance institutions and financial auxiliaries were characterized by a decrease of their share.

Central Bank

The Banking and Payments Authority of Kosovo (BPK) established in November 1999, which operated within UNMIK Pillar IV, has the authority to ensure order, control and proper supervision within the financial sector. It is tasked with monitoring the establishment of the basic regulatory, organizational and technical infrastructure required for the development of a functioning competitive financial system.

The Kosovo Constitution recognizes the creation of the Central Bank of Kosovo, as an independent institution reporting to the Assembly of Kosovo.

Banking Industry Composition

The structure of Kosovo's banking system in 2012 continued to grow and maintain the sustainability of integral liquidity, profitability and capital adequacy. The banking market continues to be characterized by a relatively high concentration rate, although this rate indicated a declining tendency in recent years. Constant growth of the activity of small banks participating in the banking system in the country reduced the share of assets of the three large banks to 69.3% in 2012, which represents a decline compared to the previous year when these three banks managed 73.3% of total assets. In 2012, a new bank joined Kosovo banking system, thus increasing the number of commercial banks to nine (9).

The structure of banks by ownership remained unchanged: 7 banks in foreign ownership and 2 banks in domestic ownership. Foreign banks have a share of 89.5% in total assets of the country's banking system.

Kosovo's banking sector during 2012 mainly consisted of:

- a growth at the level of 6.8% (7.9% in 2011);
- despite loan growth, the credit portfolio of banks remains at a satisfactory quality with a manageable level of nonperforming loans and adequate coverage by provisions for loan losses;
- the number of operational units (including main offices, branches and sub-branches) in 2012 was 310;
- commercial banks had a total of 3,727 employees, compared to the previous year when the banking system had 3,728 employees;
- banks have continued the trend of expanding the network of points of sale (POS), Automated Teller Machines (ATM) and the number of e-banking accounts users. The use of POS terminals was higher in 2012, amounting to EUR 178 million compared to the total amount of EUR 142 million in the previous year.

In 2012 Banking system assets were characterized by a slower growth trend in December 2012. Total assets of commercial banks reached the value of EUR 2.83 billion in 2012, which represents an annual growth of 6.8% (7.9% in 2011). As a GDP share, the banking system asset in the country had a share of 56.3% to GDP in 2012.

The growth of assets during this period was mainly realized through lending and investments in securities, and despite the contribution given by loans it was significantly lower compared to the previous years. In 2012, the growth of loans and investments in securities contributed by 2.5% and 2.1%, respectively, to the growth of total assets of the banking system (9.8% and 1.2%, respectively, in 2011).

The main banking activity continues to be focused on crediting the economy, although the loan growth trend during 2012 appears to be slow. Structure of the banking system assets in 2012 continues to be dominated by loans, which represent 62.3% of total assets of commercial banks. In 2012, loans reached the value of EUR 1.76 billion (EUR 1.69 billion in 2011). While in 2011, credit in the economy was characterized by acceleration compared to 2010; the data for 2012 show a significant slowdown of growth. The annual growth rate of banking system loans in 2012 was 3.8% compared to the growth of 13.2% and 16.4%, respectively, in 2010 and 2011.

The balance of commercial banks in Kosovo with banks abroad decreased by 12.6% in 2012, reaching EUR 287.9 million. On the other hand, commercial banks increased investments in securities in external market in 2012.

The following Table no 4 represents the structure of financial institutions in Kosovo, covering years 2010-2012:

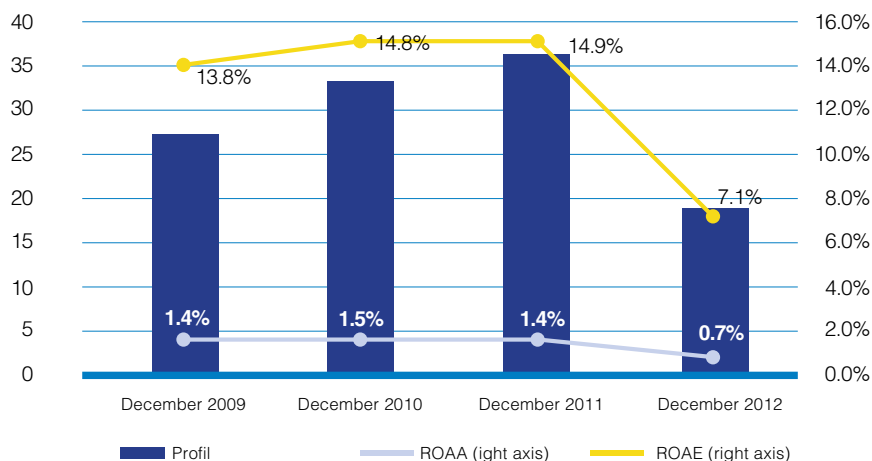
Table no 4

Description	2010	2011	2012
Banks	8	8	9
Insurance companies	12	13	13
Obligatory and individual pension funds	2	2	2

Source: CBK Annual Report, 2012.

Here below is presented the Graph no 4, showing Kosovo's system banking profitability and efficiency.

Graph no 4



Source: CBK 2013.

Loans and Deposits

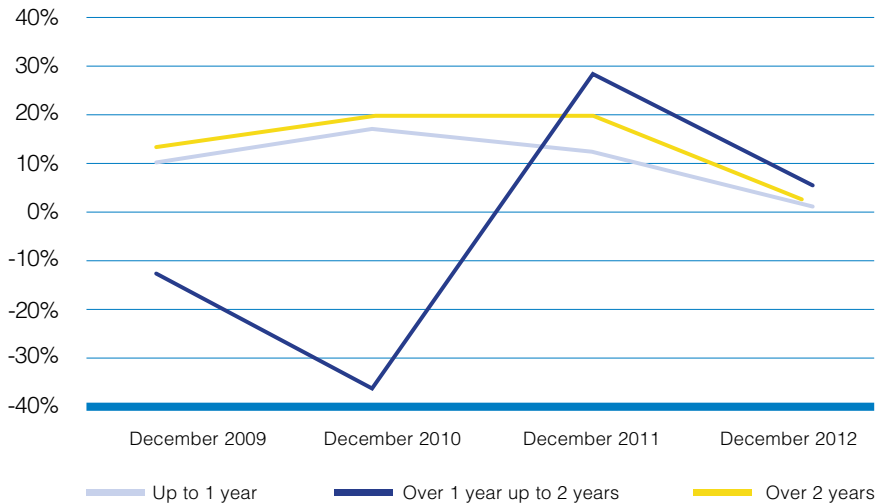
Deposits and loans, as important components of the banking system, recorded a growth rate of 8.5 % and 16.4 % respectively.

Loans

A slowdown of credit injection into the economy by commercial banks during 2012 was reflected both in loans to households and loans to enterprises. Loans to households recorded an annual growth of 6.2% in 2012, compared to an annual growth of 17.7% in the previous year. Similarly, loans to enterprises were characterized by a slowdown of growth from 12.3% in 2011 to 3.9% in 2012. The slowdown of crediting from the banking system impacted more on non-financial enterprises, which showed a decrease of their contribution in total loans to 2.0% in 2012 from 8.8% that they contributed in the previous year. The contribution of household loans to the growth of total loans of the banking system decreased to 1.9% for the same period, compared to the contribution of 5.3% in 2011.

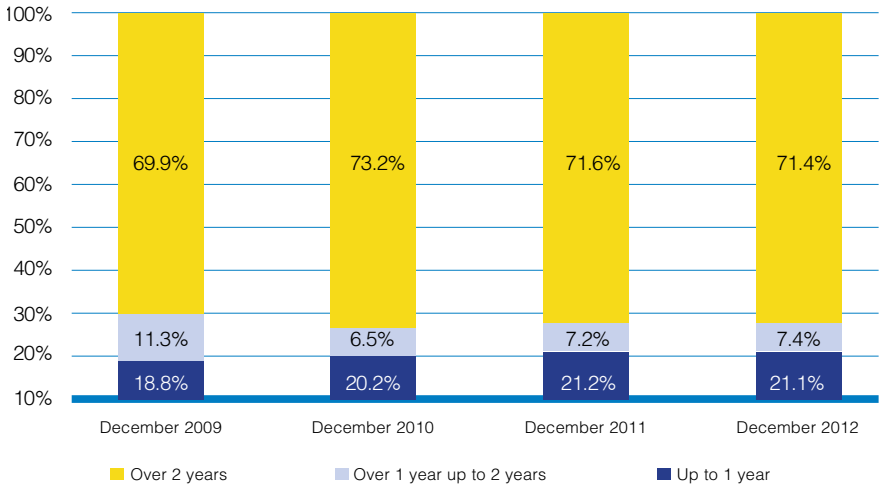
The growth trend of loans in economic sectors reflects a slowdown of crediting to all sectors, other than agriculture loans which were characterized by an acceleration of growth trend. In 2012, loans to the agriculture sector recorded a growth of 7.7%, compared to the growth of 6.1% in the previous year.

Graph no 5: Growth rate of total loans in percentage during 2009-2012



Source: CBK, 2013.

Graph no 6: Structure of loans in percentage during 2009-2012



Source: CBK, 2013.

Deposits

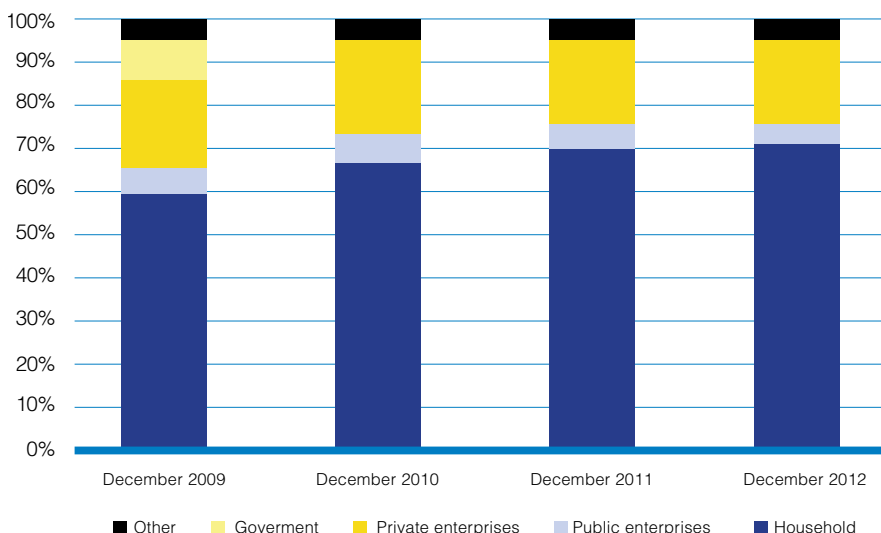
Similar to previous years, the structure of banking system deposits in the Kosovo banking sector continues to be generated mainly from households, whose deposits comprised 72% of total deposits in 2012. Compared to 2011, household deposits increased their share in total deposits by 1.1%, despite their lower growth rate in 2012. Household deposits reached a value of EUR 1.6 billion and recorded an annual growth of 10% in 2012, compared to a growth of 14.7% in 2011.

As to division of sectors, enterprise deposits reached a value of EUR 528 million, which is an annual growth of 0.8%. In 2012, the structure of enterprise deposits continued to be dominated by deposits of private enterprises with 85.7% of the total enterprise deposits. Compared to the previous year, where deposits by private enterprises recorded a year on year decline of 1.1%, in 2012, these deposits recorded an annual growth of 14.4%.

Deposits of the public enterprises reached the value of EUR 75.6 millions, a decrease of 41.2% compared to 2011. Deposits by public enterprises also decreased their share compared to the last year from 24.5% of total enterprise deposits in 2011 to 14.3% in 2012. Government deposits further decreased in 2012 to EUR 0.7 million from EUR 2.7 million in 2011, decreasing their share in total deposits by 0.1% during this period.

Conversely, non-resident deposits increased their share in total deposits of the banking system to 3.8% in 2012. In 2012, the total value of non-resident deposits reached EUR 86.9 million compared to EUR 64.2 million in 2011.

Graph no 7: Structure of deposits by sectors in percentage during 2009-2012



Source: CBK, Annual Report, 2013.

OTHER FINANCIAL INSTITUTIONS

Insurance Companies

The Insurance industry expanded in 2012 according to the CBK Annual report 2012. However, this system share to total sector assets is relatively low with only 3.4%. Out of total of 13 insurance companies operating in Kosovo during 2012, 10 of them provided non-life insurances, while 3 others provided life insurance.

INFORMATION SPACE

In 2011 the Law no. 04/L-018 on Compulsory Motor Insurance liability entered into force in Kosovo. Upon entry into force of this law, in September 2011, the CBK in coordination with the insurance industry and other relevant actors established Kosovo Insurance Bureau (KIB). The legislative activity of the CBK was oriented towards drafting/amendments to laws regulating the financial sector (Draft Law on General Insurance, Banks, Payments System, amendment of the Law on Pension Funds and drafting/amending of the secondary legislation, amendment of existing rules and the issuance of regulations in accordance with the regulatory needs required by the relevant laws).

Source: CBK, Annual Report, 2011.

The Insurance market kept growing in 2012, though at a lower rate than in the previous year. The number and structure of insurance companies operating in Kosovo remained unchanged during this year (2012), the number of insurance companies was thirteen (13), of which ten (10) provided non-life insurance products, while three (3) of them provided life insurance products.

If we take into consideration the structure of insurance companies by ownership during 2012, there has been no change compared to last year, which means that the number of insurance companies and their ownership structure remained the same as the previous year (2011). Out of total companies operating in insurance market, seven (7) companies were of foreign ownership, two (2) companies of mixed ownership, three (3) of them were of domestic ownership and one (1) company was a subsidiary.

Table no 5 as below indicates some dynamics of the activities, of insurance companies operating in Kosovo in 2012.

Table no 5

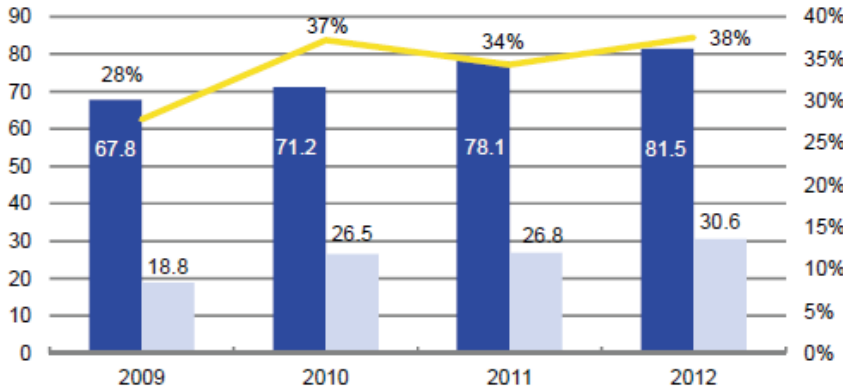
	Total
No of Insurance Companies	13
Composition of Assets	
foreign owned	77%
domestically owned	23%
Activity	
non-life insurance services	10
life insurance service	3
Ownership structure	
foreign owned	10
domestic owned	3
Total asset in million EUR	130.8
Annual growth rate of total assets	16.3%

Despite the expansion of assets of insurance companies, the insurance industry in 2012 closed the reporting period with net losses of EUR 2.3 million. ROAA (Return on Average Assets) stood at -1.9%, compared to 0.9% in 2011, while ROAE in 2012 was -4.7%, from 2.2% in 2011.

Over 2012, 757,200 policies were sold by insurance companies, representing an annual increase of 25.1%. Also, a growth of 4.4% was recorded in the amount of premiums received by insurance companies, reaching a value of EUR 81.5 million. This increase primarily reflects the increase in the number of Third Party Liability (TPL) and voluntary insurance policies sold by the insurance companies.

The activity of insurance companies is mainly oriented towards providing TPL policies, which generate most of the premiums received-about 54.2% of total premiums received (a slightly decrease compared to 59% in 2011).

Graph no 8: Insurance Companies Activities expressed in years 2009-2012



Source: CBK, 2013.

Pension Funds and Other Financial Intermediaries

Increased activity and a high level of stability has been observed also in other components of the Kosovo’s financial sector.

Kosovo pension system during 2012 did not have any significant changes, although fluctuation of financial markets has a direct impact on pension fund assets invested outside Kosovo. The purpose of the Pension Supervision Division is to supervise and regulate pension funds, pension providers, asset managers, investments, and to safeguard the participants’ assets. Two pension funds operated in the pension area: the compulsory pension fund – Kosovo Pension Savings Trust (“Trust”) and the individual pension fund: Slovenian-Kosovo Fund.

In the year 2012, Kosovo operated a total of 18 microfinance institutions (MFI) and 30 financial auxiliaries. During 2012, the licenses of two MFIs were revoked: “Agro Invest” and “Fund Way Mortgages”, while no new MFIs entered the microfinance market.

The infrastructure of microfinance industry was characterized by a slowdown. The number of MFI branches started with 119 branches in January and decreased to 111 in December 2012. The number of MFI employees during 2012 was characterized by the same movement, where in January 2012, this industry recorded a total of 934 employees, while in December 2012 the number of employees decreased to 904.

INFORMATION SPACE:

The Law on Pension Fund Supervision was adopted in March 2012, with the purpose of advancing the existing legal infrastructure on licensing, supervision and regulation of Pension Funds, ensuring protection of the pension funds contributors in Kosovo. Kosovo's pension fund operate pursuant to Law No. 04/L-101 which entered into force on 30 March 2012. The law establishes and regulates three (3) pension fund pillars:

- A basic pension is provided to all elderly aged over 65, funded by Kosovo Consolidated Budget revenues (know as Pillar I);
- Individual savings pension provided by Kosovo Pension Savings Trust (KPST) - funded by mandatory fully funded contributions by employers and employees for current employees (known as Pillar II);
- Supplementary individual voluntary pensions, funded by voluntary contributions of individual and employees (known as Pillar III).

Source: CBK, Annual Report, 2012.

TRADE

Located in the heart of Balkans, Kosovo offers easy access to EU via air, road, railway and three sea ports:

- Thessaloniki, Greece;
- Durres, Albania;
- Bar, Montenegro.

Kosovo's economy during 2012 recorded a significant slowdown both in exports and imports, leading to a trade openness ratio of 53.9% of GDP, compared with 57.1% of GDP in 2011.

Kosovo's imports during 2012 reached EUR 2.36 billion which represents a decline of 1% recorded.

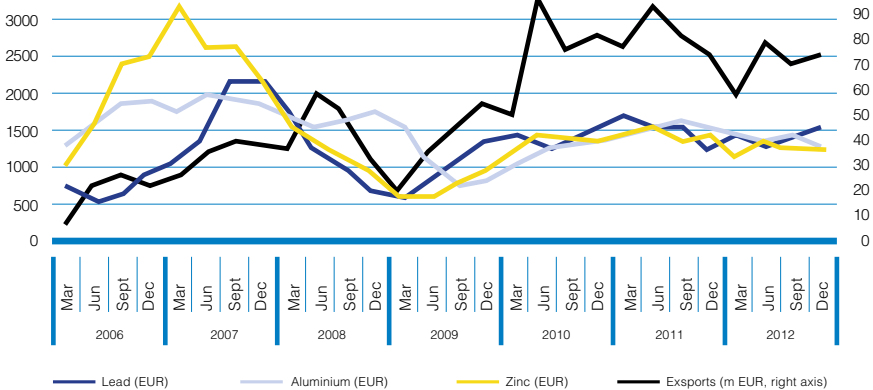
On the other hand, Kosovo's exports during 2012 amounted to EUR 286.9 million, which represents a decline of 11.7% in nominal terms. The decline of exports during this period may have been caused as a result of stabilization and decline of prices of key food products and mineral products, which are mainly comprised of oil derivatives.

According to CBK's Annual Report in 2012, the decline of exports from Kosovo besides being caused by the overall decline of demand in the region and in the EU countries, it was also affected by the decrease in the price of key components exported by Kosovo. Over 60% of goods exported from Kosovo are comprised of products of base metals and changes in metal prices reflect the nominal value of exports. Prices of base metals during 2012 recorded a decline close to the decline

of domestic exports. For example, lead, aluminium, zinc and copper were characterized by a decline of prices between 7-9%, while nickel had a more significant decline of 20%.

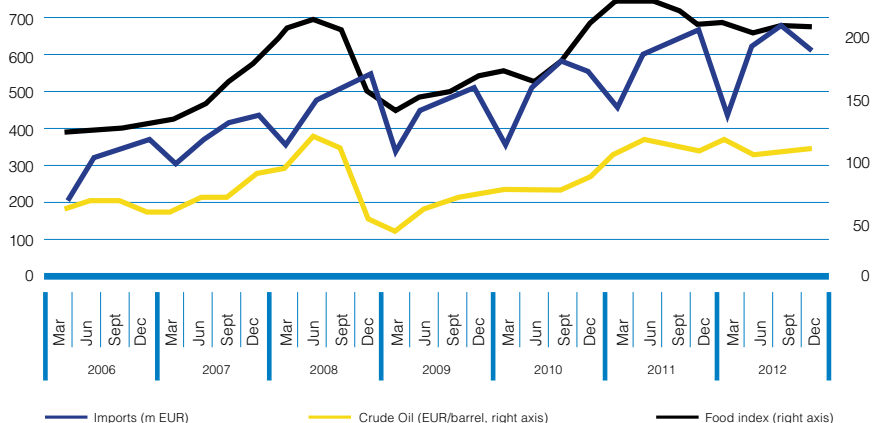
This ratio is also noticed in graph no.9 where the general inclination of exports was similar to prices of base metals in the international market. Besides developments within prices, the general forecasts of economic activity in global level are slightly better than in 2012, which are also expected to have a positive impact on Kosovo's exports. As a result, it is expected a recuperation of exports during 2013, with a growth rate of 8 up to 10%. Stabilization of prices of key products that Kosovo exports (ex. base metals) is expected to be a key factor which will drive the export growth during 2013.

Graph no 9: Export and international metal prices, without seasonal adjustments



Source: SBK (2013) and Bloomberg.

Graph no 10: Imports and international prices of crude oil and food, without seasonal adjustment



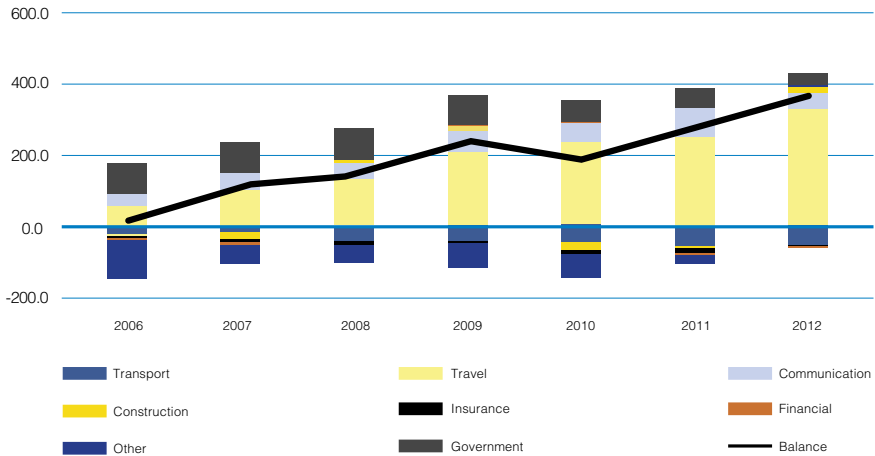
Source: SBK (2013) and IFS and FAOIN.

Trade in services during 2012 was characterized by a positive balance of EUR 346.2 million which compared to the previous year (EUR 265 million) represents an annual growth of 30.3%. A key component within trade in services continues to be the travel category which is comprised of sale of services to nonresidents. Compared to the previous year, during 2012 the account balance of travel services reached EUR 309.3 million which represents an annual growth of 31.3%. The balance growth of this account was a result of the decline in the import of travel services by 28.1% and the growth of exports of these services by 13.4%. An important category within services was the trade activity in communication services.

Communication services during 2012 registered EUR 70.3 million in exports and EUR 22 million import, resulting in a positive balance of EUR 48.3 million.

However, compared to the previous year this category recorded a decline of 37.3%. Another important category within services was the export of government services and it has to do with services provided to the international presence in Kosovo, such as diplomatic missions and the presence of other international institutions (EULEX and KFOR). The balance of this category was EUR 30.9 million. Transport, with EUR 50.9 million and security services with EUR 4.0 million (Graph no 12) continues to have a negative balance within the trade in services.

Graph no 11: Net export structure of services in millions of euros



Source: CBK (2013).

INFORMATION SPACE

KOSOVO HAS A LIBERAL TRADE REGIME

1. CEFTA 2007

- Central European Free Trade Agreement with the following countries: Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Moldova, Montenegro, Serbia;
- Population: 32 million;
- GDP (2011): EUR 200 billion.

2. Autonomous Trade Preferences with the European Union

- (i) Unlimited duty-free access to the EU market, renewed 2011-2015.

3. Generalized System of Preferences with the US

- Preferential duty-free entry for about 4,800 products.

4. Trade Preferences with: Japan & Norway and ongoing with Turkey.

Source: IPA-K Investment Promotion Agency of Kosovo-<http://www.invest-ks.org/>

Geography of Trade in 2012

Exports

Kosovo's trading activity during 2012 recorded a significant slowdown in exports and in imports. Kosovo's exports amounted to euro 286.9 million, representing a decline of 11.7% in nominal terms and 13% in real terms.

This decline of exports from Kosovo resulted by the overall decline of demand in the region and in the EU countries and it was also affected by the price decrease of key components exported by Kosovo.

Over 60% of goods exported from Kosovo are comprised of products of base metals and changes in metal prices reflect the nominal value of exports. During 2012, prices of base metals recorded a decline close to the decline of domestic exports.

Besides developments within prices, the general forecasts of economic activity in global level are slightly better than in 2012, which are also expected to have positive impacts on Kosovo's exports. Stabilization of prices of key products that Kosovo exports are expected to be a key factor to the export growth during 2013.

Imports

During 2012, the value of imports reached EUR 2.36 billion which represents a decline of 1%. The decline of exports during this period may have been caused as a result of stabilization and decline of prices of key food products and mineral products, which are mainly comprised of oil derivatives. Trade in services during 2012 was characterized by a positive balance of EUR 346.2 million which compared to the previous year (EUR 265 million) represents an annual growth of 30.3%.

Trade in services during 2012 was characterized by a positive balance of EUR 346.2 million which represents an annual growth of 30.3% compared to the previous year. An important category within services was the trade activity in communication services. Another important category within services was the export of government services which are the services provided to the international presence in Kosovo, such as diplomatic missions and the presence of other international institutions (EULEX and KFOR).

BUSINESS SECTOR OPPORTUNITIES FOR INVESTMENTS

OPPORTUNITIES AND INCENTIVES FOR FOREIGN INVESTORS

According to Doing Business Report 2013, Kosovo ranks as the most dynamic reformer among Central and Southeast European (CSEE) countries.

Kosovo made starting a business easier by eliminating the minimum capital requirement and business registration fee and streamlining the business registration process.

Kosovo strengthened investor protections by introducing a requirement for shareholder approval of related-party transactions, requiring greater disclosure of such transactions in the annual report and making it easier to sue directors when such transactions are prejudicial. Kosovo introduced also a minimum wage.

INFORMATION SPACE:

Target sectors open to investment opportunities in Kosovo:

Primary Target Sectors:

- Business Process Outsourcing (BPO) and Customer Support Centers;
- Agribusiness – Food Processing and Packaging;
- Mining and Energy;
- Textile and Leather;
- Wood and Metal Processing;
- Tourism – New Brezovica Ski Resort.

Second Target Sectors:

- Decorative Stone;
- Construction;
- Automotive Components;
- Beverage Production.

ENERGY AND MINING

Kosovo has an enviable endowment of natural resources. At 14.7 million tons, Kosovo possesses the world's fifth-largest proven reserves of lignite. This mineral is of outstanding importance for the country, representing in the long term one of the most crucial factors for the generation of power. Furthermore, at an exploitation cost of 1.1 €/GJ of energy, Kosovo's coal definitely represents the best value for business in the region.

Taking into consideration the high market demand for energy in the region, the Government of Kosovo is currently developing major projects regarding new lignite exploitation and power generation facilities. These projects offer unique opportunities for companies willing to engage in the energy or mining sectors in the region.

Only 1.6-2% is yet exploited - for domestic consumption only and through the heating of steam. Coal is primarily used for the production of electric energy. However, due to war damage, lack of investment in maintenance and the deployment of outdated production methods, total production has been reduced year after year and is currently only 17% of what it was in 1978¹⁰. Lignite reserves can be exploited in surface mines, thus providing a very cheap source of energy for thermo-electric power plants.

Current energy production from coal is part of a monopoly called the "Kosovo Energy Company" (KEK) which operates two plants, Kosovo A (with 5 units) and Kosovo B (with 2 units). A third plant, Kosovo C is being planned to be operating within next years, however there is no specific date in this regard.

Production costs as seen in relation to contained energy are among the lowest in Europe. Seen in relation to energy contents the cost of exploring these resources has been calculated to 0.62 €/GJ in Kosovo compared to 0.88 €/GJ in Bulgaria and 1.34 €/GJ in Serbia or Montenegro¹¹.

Furthermore, Kosovo is well endowed with deposits of lead and zinc. Located in the eastern part of the territory, these deposits are sufficient to make of Kosovo a significant supplier of zinc in the regional markets. Kosovo could not only develop markets for raw zinc, but also for more value-added zinc products¹².

Ferronickel and magnesium reserves are also significant in Kosovo, offering opportunities for international investors.

In addition to coal, Kosovo has very large assets of ore for precious metals, one of the largest in former Yugoslavia. The ore is primarily located in three districts complexes, i.e. the Trepca Complex District, the Ferronikeli Complex and the Klina district.

In the Trepca Complex district for example, there are five different mines containing large deposits of lead, zinc and silver. These mines are very old and ore mining has occurred in the area since the days of the Illyrians, i.e. before the Roman Empire expanded into the area. Now, current deposits at Trepca have been calculated

¹⁰ Source: http://nipak-ks.org/energy_mining.php; IPAK.

¹¹ Source: *Ibid* 1.

¹² Source: *Recent report from the Independent Commission for Mines and Minerals (ICMM)*.

to comprise 425,000 tons of lead, 415,000 tons of zinc and 800 tons of silver¹³. These underground mines are spread across the geological Vardar Zone of the north and east of Kosovo. This linear belt of volcanic and sedimentary rocks has been broken by geological faults and the metals.

Kosovo has considerable deposits of Indium, Cadmium, Germanium, Thallium and Gallium, i.e. precious metals that are primarily used in the IT & semi conductor industry applications. Indium for instance is crucial for flat panel screens.

FAVORABLE AGRICULTURE POTENTIALS

Traditional agriculture and Agribusiness

With some 60% of the population living in rural areas and mostly working in agriculture, Kosovo has a long agricultural tradition. Agriculture is the main source of income for the majority of the population. The agribusiness and food processing sector is traditionally one of the strongest sectors in Kosovo's economy. Historically, there has been a low reliance on artificial inputs at source, embellishing the integrity of the production.

Out of a total surface area of 1.1 million hectares approximately 588,000 or slightly more than half is agricultural land with fertile, nutrient-rich soils. About 90% of agricultural land is dedicated to livestock activities such as pastures, meadows, forage crops and some fodder crops for animals. The remaining area is used for grain for human consumption, vineyards, potatoes, fruit and vegetables.

The bulk of agriculture consists of subsistence farming in family farms of less than 3 hectares on average. Less than 1% of the farms have more than 10 hectares of land. Agriculture is the largest employment sector in Kosovo, providing jobs for approximately 16.5% of the population, primarily on an informal basis¹⁴.

In the past, agricultural production contributed approximately 25% of Kosovo's GDP¹⁵ and was the main source of income for the majority of the population. This sector is still one of the most important employment providers in Kosovo and it accounted for 18% of the value of exports. Kosovo provides opportunities for investment not only in primary production but also in modern post harvest handling facilities, cold storage distribution centres and logistics centers. Modern and efficient processing facilities could be brought closer to the inputs thus providing economies of scale and higher value added products that could compete effectively with the products that Kosovo is currently importing, especially in dairy products, fruit and vegetables, meat products, wine production and other beverages.

In comparison to other countries, Kosovo additionally offers a very flexible and cost effective labour force and, due to trade liberalization within the CEFTA region,

¹³Source: Recent report from the Independent Commission for Mines and Minerals (ICMM).

¹⁴Source: <http://www.state.gov/r/pa/ei/bgn/100931.htm>.

¹⁵Source: <http://www.fao.org/ag/AGP/AGPC/doc/Counprof/kosovo/Kosovo.htm>.

free access to the regional market consisting of 30 million consumers. In addition, Kosovo enjoys a preferential market access to the EU and US markets, with only few products exempted from this preferential treatment^{16,17}.

FOREIGN INVESTMENTS

According to the 2012 CBK Annual Report, FDI in Kosovo were EUR 232.0 million or 41.2% lower than in 2011. While Kosovo resident investments in other countries recorded a slight growth 0.8% and reached EUR 15.8 million, Kosovo resident direct investments are mainly capital investment, which in majority of cases are purchases of real estate. FDI in Kosovo are basically concentrated on economy sectors, such as real estate with 31.7% of total FDI, construction with 20.8 percent, production with 12.1%, financial sector with 10.4%, followed by transport and telecommunication sector with a share of 7.9% to total FDI.

To date over 2000 companies of foreign or mixed ownership have already successfully invested in Kosovo. There is a significant number of foreign investors operating successfully and profitably in Kosovo such as Telekom Slovenia (Slovenia), Raiffeisen (Austria), Uniq, Vienna Insurance Group, Xella, BNP Paribas, Holcim, Nova Ljubljanska Banka, Strabag, Kelag, Bechtel, Enka etc.

Kosovo has taken significant measures to protect foreign investors by adopting the Law on Foreign Investment which grants foreign and domestic investors equal rights to ownership of local companies, following the principle of national treatment. According to the Law on Foreign Investment of Kosovo, foreign investors have the same rights and obligations as residents of Kosovo and are treated equally. It ensures “foreign investors that they and their investments will be protected and treated with fairness and respect in strict accordance with the rule of law and widely accepted international standards and practice” (Law No. 02/L-33).

Having introduced the Euro as its official currency, Kosovo offers to foreign investors a stable macroeconomic environment. The use of the Euro in Kosovo has resulted in low inflation rates, in elimination of exchange rate risk and monetary policy risk. The simple tax system and low-rates are other factors that make Kosovo an attractive country to invest. Kosovo’s VAT stands at 16% on all goods and services and at 0% on agricultural, capital and intermediary goods.

PRIVATIZATION

The process of privatization in Kosovo is being administered by the Privatization Agency of Kosovo (PAK). PAK is established as the successor of the Kosovo Trust Agency regulated by UNMIK Regulation 2002/12 “On the establishment of the Kosovo Trust Agency”, as amended.

¹⁶Source: *International Business and Diplomatic Exchange*.

¹⁷Source: www.invest-ks.org/

PAK is an independent public body that carries out its functions and responsibilities with full autonomy, based on the law No. 04/L-034, on the PAK.

PAK is aiming to preserve and enhance the value, viability, and corporate governance of socially owned (SOE) and public enterprises (POE) in Kosovo.

The main objective of PAK is to privatize SOE's and administer POE's. The process of privatization is being implemented through the method of spin-off and voluntary liquidation.

¹⁸According to PAK, many state-owned enterprises are going through the privatization process bringing many opportunities to foreign investors. A list is presented as below:

- Metaliku Metal Processing Complex – 25 ha;
- Ereniku Wine Cellar – 3 ha;
- Virxhinia - Tobacco Processing Plant – 8.1 ha and 38K m² covered;
- Bauxite Mining – Kosovo Bauxite – 220 ha;
- Betonjerka - Construction Material production – 5.3 ha;
- Real Estate – Agricultural Land – 10ha – 50ha;
- Fapol – Polyester Columns – 7Ha + Customs Terminal;
- Vreshtaria Vineyards – 50ha – 130ha.

¹⁸Source: IPAK-<http://www.invest-ks.org>-(as per data released by IPAK).

INFORMATION SPACE:

Industrial Parks, an innovative investment opportunity!

The Industrial Parks project represents a unique opportunity for investors to establish and expand their business in Kosovo. The concept of industrial parks is relatively simple:

- Providing high quality facilities and infrastructure at a competitive market price, from which businesses can operate effectively and efficiently.

The Government of the Republic of Kosovo is well on the way to better define this initiative, through an integrated and dedicated infrastructure for new businesses to benefit from.

("Launch of industrial park of Drenas-area of 24 hectares, expected local and foreign business to be placed: 72. Three sizes of plots are available, 1000 m², 3000 m² and 6000 m²").

Source: IPAK and Ministry of Trade and Industry in Kosovo.

Investment opportunities in Public Private Partnership (PPPs) are also available in the country. See below for a detailed list of projects:

Route 6: Macedonia – Kosovo

- A 4-lane 80 km motorway that connects Pristina to Thessaloniki port with 25,000 vehicles per day;
- Estimated transaction value: EUR 600 million;
- Contractual Model: Public Contract.

Installation of Tolling Plazas in Route 7: Albania – Kosovo

- Maintenance of 107 km motorway;
- Concession of all rights on highway including: Petrol stations, advertising, and caballing;
- PPP Model: Operation Concession Contract (Tolls).

Building of Service Stations in Route 7: Albania – Kosovo

- Building and Operation of Six Service Areas;
- Exclusivity over the whole stretch of highway;
- Wide range of services: Gas Stations, restaurants, parking, and hotels;
- Public Private Partnerships Model: Build Operate Transfer (BOT);
- Investment Value: EUR 36 million.

Kosovo Land Fill Management

- Investment Project to Increase and Modernize Land Fill Locations throughout Kosovo - 5 Land Fills with over 180,000 tones of solid waste;
- Donor interest for financial support;
- Investment Value – ~ EUR 5 million.

Kosovo municipalities, as showed in Table no 6, offer great PPPs projects, which are expected to be developed during year 2013.

Table no 6

No.	Municipality	Project
1	Pristina	Underground Parking - Municipality Building (BOT)
2	Pristina	Underground Parking - Grand Hotel (BOT)
3	Pristina	Underground Parking - Pristina University (BOT)
4	Peja	Urban Transport
5	Suhareke	Solid Waste Collection
6	Pristina	Urban Transport
7	Fushe Kosova	Waste Collection And Sorting
8	Shterpce	Waste Collection
9	Mitrovica	Waste Collection And Sorting
10	Prizren	Parking & Commercial & Cinema (Multi-level, Under And Above Ground)
11	Prizren	PARKING (Above Ground)
12	Gjilan	Commercial/Recreational Complex
13	Gjilan	Waste Collection And Managment
14	Ferizaj	Construction Of Recreational, Cultural And Sports Center
15	Ferizaj	Trade Center At The Marketplace With Underground Parking
16	Ferizaj	Waste Water Treatment
17	Prizren	Reconstruction of Marketplace

Source: IPAK-<http://www.invest-ks.org>.

LOCATION ADVANTAGE

Table no 7: Distance to the main destination of Kosovo through road transport

REGIONAL CENTRE	TRAVELLING DISTANCE FROM PRISTINA (km)
Skopje	86
Thessalonica (port city)	312
Tirana	330
Belgrade	355
Durres (port city)	355
Sarajevo	390
Bar (port city)	570
Zagreb	741
Budapest	747
Sofia	279

Source: Why invest in Kosovo? Ministry of Trade & Industry, UNMIK European Union Pillar (2005).

BUSINESS LAW, ACCOUNTING AND AUDIT REQUIREMENTS

TYPES OF BUSINESS ENTITIES

According to Law No. 02/L-123 “On Business Organizations” published on Official Gazette on 01.10.2007 as amended with the Law No. 04/L-006 on Amending and Supplementing the Law No. 02/L-123 on Business Organizations (“Basic Law”) which was published on 22.07.2011 in the Official Gazette, the business entities that may be registered with the Kosovo Business Registration Agency (the “Registry”) are the following:

- Individual Business – Biznes Individual
- General Partnership – Ortakeri e Pergjithshme
- Limited Partnership – Shoqeri komandite
- Limited Liability Company – Shoqeri me pergjegjesi te kufizuar
- Joint Stock Company – Shoqeri aksionare

Apart from the above forms of establishment, foreign business organizations may also conduct business in Kosovo through a branch office, upon registration with the Registry.

The branch office is not a separate legal entity, consequently, rights and obligations pertaining to the branch office shall be deemed to pertain to the parent company.

To establish a branch in Kosovo, a foreign business organization through its duly authorized persons, should sign and submit a standard application form, a “foreign business organization agreement”, containing information and details about the organization, capital structure and scope of activity of the parent company and/or of the branch, the registration certificate of the parent company in country of origin and the charter of the parent company.

In case the foreign company seeks to conduct business in Kosovo through a wholly owned subsidiary (instead of a branch) a new company incorporated under the provision of the Kosovo legislation should be established.

A foreign business organization shall not be required to register at the Registry if it is engaged exclusively in exporting to Kosovo from abroad products or services which are imported in Kosovo by purchasers or potential purchasers established or residing in Kosovo.

Below are types of organization of business available under current Kosovo company legislation.

Individual Business

A natural person, who is not an agent or an employee of another business organization, is engaged in commerce. A natural person acting as a personal business enterprise whether registered or not, shall have unlimited personal liability and will be held liable for all debts incurred in the course of his acting as such to the full extent of his sizeable assets. A personal business enterprise for the purpose of conducting an economic activity may choose to register or not with the Registry. To register a personal business enterprise the owner shall sign and submit to the Registry a standard form containing information and details about organization and purpose of such business. If the registered agent is not the owner, the latter should attach the written consent of the registered agent to serve in such capacity.

General Partnership

A business organization that exists as a result of an association of two or more persons and/or companies for the purpose of engaging in commerce. The persons who form such partnership are considered as general partners. Partners are jointly and severally liable for the debts and other obligations incurred by the general partnership to full extent of their assets. A general partnership may come to existence either upon registration or upon conducting the activity in Kosovo without completion of such registration with the Registry.

To register a general partnership, a general partner or an authorized person shall sign and submit to the Registry a standard application form and the “general partnership agreement” containing information and details about the organization and purpose of the partnership and must attach to the agreement, the written consent of the registered agent to serve in such capacity.

Limited Partnership

Consists of at least one general/unlimited partner, and at least one limited partner. The general/unlimited partner(s) is (are) liable without limitation for the debts of the limited partnership. The limited partner(s) is (are) liable only to the extent of its (their) contribution(s) to the limited partnership.

A limited partnership shall come to existence only upon registration with the Registry. To register a limited partnership, a general partner or an authorized person shall sign and submit to the Registry a standard application form and a “limited partnership agreement” containing information and details about the organization and purpose of the partnership, copy of the company’s regulation, and a written consent of the registered agent to serve in such capacity.

Limited Liability Companies

A corporation which shares are distributed only to its founders or to the pre-determined persons. A limited liability company cannot conduct a public offering of its

shares, and the number of shareholders cannot exceed 50. A limited liability company comes to existence upon registration to the Registry.

To register a limited liability company a founder shall sign and submit to the Registry a standard application form, the charter of the company, the company agreement and the written consent of the registered agent to serve in such capacity.

The limited liability company is governed by the shareholders assembly and by the director or managing directors. The limited liability company can create and hold a board of directors if this is regulated through the company agreement and the charter.

Joint Stock Companies

A joint-stock company may have any number of shareholders holding common and preferred shares. It may conduct a public offering of its shares pursuant to such conditions as the law may require. The minimum capital required to establish a joint stock company is EUR 10,000.

A joint stock company comes to existence upon registration to the Registry. To establish and register a joint stock company the founder shall sign and submit to the Registry a standard application form, the charter, the bylaws and a written consent of the registered agent to serve in such capacity.

The joint stock companies are governed by general assembly of shareholders, the board of directors and the officers.

ACCOUNTING REGULATIONS

Parliament of Kosovo has approved Law No. 04/L-014, dated 10.09.2011 “On Accounting, Financial Reporting and Audit” (the “Accounting Law”).

The Accounting Law governs the accounting and financial reporting requirements of business entities in Kosovo, audit requirements, qualifications for professional accountants, licensing of individual auditors and audit firms, as well as the competences and responsibilities of Kosovo Financial Reporting Council (“KFRC”).

As per the Accounting Law, companies are classified into four groups:

1. Large companies which fulfill two out of three of the following criteria:
 - I. The net annual turnover is higher than four million Euro;
 - II. Gross assets in the balance sheet are higher than two million Euro;
 - III. The average number of employees during the financial year is higher than fifty (50).
2. Medium companies which fulfill two out of three of the following criteria:

- I. The net annual turnover is higher than two million Euro but less than four million Euro;
 - II. Gross assets in the balance sheet are higher than one million Euro and less than two million Euro;
 - III. The average number of employees during the financial year is higher than ten (10) but smaller than fifty (50).
3. Small companies which fulfill two out of three of the following criteria:
- I. The net annual turnover is higher than fifty thousand Euro but less than two million Euro;
 - II. Gross assets in the balance sheet are higher than twenty five thousand Euro and less than one million Euro;
 - III. The average number of employees during the financial year is up to ten (10).
4. Micro enterprises which are those having the annual turnover, value of assets, and average number of employees lower than the threshold prescribed below:
- I. The net annual turnover is less than fifty thousand Euro;
 - II. Gross assets in the balance sheet are less than twenty five thousand Euro;
 - III. The average number of employees during the financial year is smaller than ten (10).

Large, medium and small business entities (except for micro enterprises) shall prepare general purpose financial statements in accordance with IFRS issued from the International Accounting and Assurance Standard Board ("IAASB") and approved by KFRC. Consolidated financial statements shall be prepared in accordance with EU Directive 78/660/EEC and IFRS.

The criteria for accounting and reporting requirements, applicable to micro enterprises, will be determined by KFRC, which as of December 2011 are pending.

The companies, irrespective from their size, are obliged to maintain the accounting books in accordance with the following time limits:

- Payrolls to be maintained permanently;
- Financial statements and supporting books to be maintained up to ten years;
- Accounting documents through which the records are performed should be stored at least six years;
- The same terms also apply to electronic and printout documents.

The accounting books consist of:

- journal;
- general ledger; and
- supporting books.

Accounting records should be maintained in the official languages of the Republic of Kosovo and in Euro currency. Large and medium enterprises may keep the accounting records in English language, to the extent that the financial statements are translated into the official languages of the Republic of Kosovo.

Business entities should verify, at least once a year, the existence and evaluation of assets, liabilities, and capital through the inventory process of these items supported with proper evidence.

The management of the business entity should sign the financial statements and will be responsible for their fairness.

Annual Financial Statements shall contain the following documents:

- Balance sheet;
- Statement of revenues;
- Statement of capital changes (equity);
- Statement of cash flow;
- Notes to the financial statements.

The structure and content of the annual financial statements shall be regulated by a sub-legal act issued by the Minister of Finance, upon the proposal of KFRC.

FINANCIAL STATEMENTS

The general purposes financial statement of the business entities shall be filed with KFRC and a copy to Ministry of Trade and Industry (MTI), not later than 30 April (30 June for consolidated financial statements) of the following year.

Stand alone financial statements should be filed to tax authorities before or on 31 March of the following year.

AUDIT REQUIREMENTS

As per new Accounting Law, statutory audits in Kosovo shall be carried out in accordance with the International Standards of Auditing (“ISA”) and related interpretations, guidance and pronouncements of IAASB.

The Accounting Law provides the following audit requirements:

- The financial statements of large business entities shall be audited by auditing firms;
- The financial statements of medium business entities shall be audited by auditing firms or individual auditors;
- Small business entities are not required to carry out the audit of the statutory financial statements.

TAXATION OF BUSINESSES

GENERAL

The tax system includes personal income tax, corporate income tax, value added tax (VAT) and excise tax. The fiscal year is the calendar year.

The process of establishing the tax legislation in Kosovo started in April 2000 with the introduction of Regulation “On Tax Administration and Procedures”. This Regulation was followed by the introduction of Presumptive Tax in May 2002. VAT was firstly set up in May 2001 and personal income tax in February 2002. A modern system of collection of corporate income tax, personal income tax and withholding tax on dividends, interest, and payments for determined services was introduced by the end of 2004, which has been subject to subsequent amendments.

RESIDENCE

A person is considered resident in Kosovo for tax purposes when its place of establishment or place of effective management is in Kosovo.

CORPORATE INCOME TAX

Corporate Income Tax is governed by Law No. 03/L-162 dated 29.12.2009 “On Corporate Income Tax” (“Corporate Income Tax Law”) as amended with Law No. 04/L-103, dated 03 May 2012 “On Amending and Supplementing the Law No. 04/L-103 On Corporate Income Tax”.

Companies conducting business in Kosovo are subject to corporate income tax at a rate of 10 %. Previously, the corporate income tax rate was levied at 20%.

Taxpayers (except for insurance companies) with annual gross income up to EUR 50,000 (VAT threshold) may choose between payment of the tax on gross income or corporate income tax. The rates of the tax on gross income are:

- (i) three percent (3%) of income resulting from activities of trade, transport, agricultural and similar commercial activities;
- (ii) five percent (5%) of income resulting from provision of services, professional/vocational activities, entertainment and similar activities;
- (iii) ten percent (10%) of net rent income (gross rent income less 10% allowance as provided by the legislation), reduced by any amount withheld at source.

Taxable profit

The determination of the taxable base starts with the profit shown in the profit and loss account. The profit calculation is made according to the accounting legislation and the tax provisions.

Corporate Income Tax Law provides for a list of expenses that are non-deductible for tax purposes, consisting of:

- cost of acquisition and improvement of land (capitalized);
- cost of acquisition, improvement, renewal and reconstruction of assets that are depreciated or amortized;
- fines and penalties;
- income tax paid or accrued for the current or previous tax period and any interest or late penalty incurred for late payment of it;
- any loss from the sale or exchange of property between related persons;
- pension contributions above the maximum amount allowed by the Kosovo Pension Law;
- training expenses above EUR 1,000 per employee in any tax period;
- bad debts that do not meet the following cumulative conditions: (i) the amount that corresponds to the debt has previously been included as income; (ii) the debt is written off from the taxpayer's books; (iii) the existence of the debt is undisputed; (iv) there is adequate evidence of substantial unsuccessful attempts made by the taxpayer to collect the debt; and (v) the debt was due at least six months before the day when it is recognized as a bad debt;
- deductible and/or reimbursable value added tax;
- contributions made for humanitarian, health, education, religious, scientific, cultural, environmental protection and sports purposes, which exceed five percent (5%) of taxable income (before the deduction of such expenses);
- representation costs exceeding two percent (2%) of total gross income (provided that only 50% of the amount paid for business entertainment is allowed).

Depreciation

The owner of the asset is entitled to depreciation allowances. In case of a financial lease, depreciation may be claimed by the lessee, being the person who bears the risk of the loss or destruction of the asset.

For fiscal purposes, assets are grouped into three categories and the depreciation rates are applied, using the straight-line method, on the historical value of each category at the end of the tax period.

Category 1 - Buildings and other construction structures considered to depreciate at a rate of 5%.

Category 2 - Automobiles and light trucks, heavy transport vehicles, other heavy vehicles, computers and similar office furniture, and equipment are considered to depreciate at a rate of 20%.

Category 3 - Plant and machinery, rolling stock and locomotives used for rail transport, airplanes, ships and all other tangible assets are considered to depreciate at a rate of 10%.

Purchase of an asset for a price of EUR 1,000 or less shall be allowed as a current expense.

Tangible assets with a purchase price of more than EUR 1,000 and less than EUR 3,000 purchased after 1 January 2010, should be placed in a single asset pool account and depreciated at a rate of 20% irrespective of the category of assets under which they would be classified.

Tangible assets that were purchased and depreciated under the pooling method prior to 1 January 2010 should continue to be depreciated under the same method and rate until the value of the pool equals to zero.

Expenditures on intangible assets that have a limited useful life are deductible in the form of amortization charges. The method of amortization must be the straight-line method and the allowance should be based on the useful life of the asset as determined by the agreement governing the acquisition and use of the intangible asset.

Depreciation allowances are not granted on land, works of art and other property, which is not subject to wear.

Reserves and Provisions

In general, reserves are not allowable deductions for tax purposes, except for the reserves and provisions of financial institutions licensed by the Central Bank of Kosovo. Insurance companies do not benefit this allowance.

Incentives

Special Allowance for New Assets

If a taxpayer purchases any asset belonging to Category 3 (mentioned above on section "Depreciation") for the purpose of its business activity between 1 January 2010 and 31 December 2012, a special deduction of ten percent (10%) of the cost of acquisition of the asset is allowed in the year in which the asset has been first put in operation.

This deduction is in addition to the normal depreciation deduction.

The deduction must be allowed only if the asset is new or is put into service in Kosovo for the first time.

Losses

Losses may be carried forward for seven consecutive years.

In case of change of the type of business organization or its ownership with more than 50% the carry forward of losses will no longer be applicable.

Foreign Tax Credit

Income taxes paid abroad by Kosovo residents are deductible from tax amounts due in Kosovo in accordance with the provisions of Corporate Income Tax Law.

Special Treatment of Insurance Companies

Companies, whose principal activity is the insurance or reinsurance of life, property, or other risks, pay the tax at five percent (5%) rate of the gross premiums accrued during the tax period, instead of the corporate income tax.

WITHHOLDING TAXES

Interest and Royalties

- Interest and royalties are subject to a final withholding tax at 10% rate.

Rent

- Rent payments are subject to withholding tax at 9% rate.

Other Withholdings

- Winnings in lottery or gambling are subjects to withholding tax at the rate of 10% on gross amount of the payment;
- Income generated by an artist or sportsman, from his/her personal activities performed in Kosovo are subject to withholding tax at the rate of 5% of the gross payment;
- Income generated from a non-resident person/entity for services rendered in Kosovo are subject to withholding tax by the payer of that income at the rate of 5% of the gross payment (considering that the non-resident person/entity has no permanent establishment in Kosovo and the gross payment made to the non-resident is more than EUR 5,000 in any tax period).

Transfer price

Tax authorities have the right to make adjustments to profit arising from a transaction between related parties if the parties have concluded the transaction under conditions, which differ from those of a similar transaction between unrelated parties. To this end, tax authorities might use the comparable uncontrolled price method and, when this is not possible, the resale price method or the cost-plus method.

Double Taxation Avoidance Treaties

Kosovo tax authorities have not officially abolished the tax treaties that were signed by the former Yugoslavia. On the other hand, they have not accepted the direct application of these tax treaties.

Kosovo President has ratified by decrees the following double tax treaties signed by the former Yugoslavia:

- Agreements for the avoidance of double taxation with respect to taxes on income and capital that were entered into with:
 - The United Kingdom (published in the Official Gazette on 6 September 2010);
 - Germany (published in the Official Gazette on 8 September 2011);
 - Belgium (published in the Official Gazette on 2 April 2010); and
 - Finland (published in the Official Gazette on September 8 2011); and
 - Hungary ((published in the Official Gazette on 13 January 2014).
- An agreement with the Czech Republic for the avoidance of double taxation on inheritance tax (published in the Official Gazette on 4 April 2011).

Since independence, Kosovo has entered into double taxation treaties for the avoidance of double taxation with respect to taxes on income and capital with Albania (effective 1 January 2006), Macedonia (effective 13 April 2012) and Turkey (effective from 1 January 2013).

No other treaties are currently signed.

INDIRECT TAXES

VAT Law in Kosovo

The Parliament of Kosovo has approved a new law “On Value Added Tax” (No. 03/L-146, dated 29.12.2009), purposed to be in line with the European VAT Directive. This Law has entered in force from 1 July 2010 which has been amended by Law No. 04/L-108, dated 3 May 2012 “On Amending and Supplementing the Law No. 03/L-146 On Value Added Tax as Amended and Supplemented by the Law No. 03/L-197”.

Under VAT Law, a taxable person is any person who is, or is required to be registered for VAT, and who, carries out in Kosovo, independently, any economic activity in a regular or non-regular manner, whatever the purpose or results of that economic activity is.

Every taxable person is required to be registered for VAT from the moment when total supplies in the previous twelve month period, exceed the threshold of EUR 50,000.

Foreign entities and persons that operate in the import/export sector are subject to VAT registration, from the beginning of their economic activity in Kosovo, regardless of the VAT threshold.

Tax authorities issue a VAT registration certificate to the taxable person which has to be displayed at each place of business activity. A taxable person conducting the same or different economic activities and who has several places of economic activity within Kosovo, is identified by one individual and unique VAT registration number.

Taxable transactions include the supply of goods and services in Kosovo by a taxable person, as well as the importation of goods to Kosovo.

The taxable amount is the value of the goods and services supplied, excluding VAT. The taxable amount of imported goods includes transportation and insurance costs, import costs and any applicable taxes, duties or tariffs.

A taxable person shall submit a tax declaration and remit the related payment not later than the 20th of the calendar month following the end of each tax period.

The period for storage of books and all VAT records is at least 6 years.

VAT rate

The standard rate of VAT is 16%. However, the Minister of Economy and Finance may, upon the decision of the Government of Kosovo and after the approval of the Parliament, issue the instructions on the application of a VAT rate different from 16% for specific supplies of goods and services. These rates can be no lower than 5% and not higher than 21%.

VAT exemptions

Besides several public services the following activities are VAT exempted:

- Insurance and reinsurance transactions, including related services, performed by insurance brokers and insurance agents;
- The granting and negotiation of credit and the management of credit by the person granting it;
- The negotiation of any dealings in credit guarantees or any other security for money and the management of credit guarantees by the person who is granting the credit;
- Transactions, including negotiation, concerning deposit, current accounts, payments, transfers, debts, cheques and other negotiable instruments, but excluding debt collection;
- Transactions, including negotiation, concerning currency, bank notes and coins used as legal tender, with the exception of collectors' items, that is to say, gold, silver or other metal coins or bank notes which are not normally used as legal tender or coins of numismatic interest;
- Transactions, including negotiation but not management or safekeeping, in shares, interests in companies or associations, debentures and other securities, but excluding documents establishing title to goods, and the rights or securities;

- The management of special investment funds as defined by the competent Authorities of Kosovo;
- The supply at face value of fiscal stamps and other similar stamps;
- Betting, lotteries and other forms of gambling, subject to the conditions and limitations laid down by the competent Authorities of Kosovo;
- The supply of land or land on which a building or house stands;
- The supply of houses, apartments or other accommodation used for a relevant residential purpose;
- The leasing or letting of immovable property;
- The supply of goods used solely for an activity exempted under Article 27 and Article 28 of the VAT Law, if those goods have not given right to deductibility.

VAT exemptions on importation

- The release of goods for free circulation, if the supply of such goods effected on the territory of Kosovo by a taxable person are in all circumstances exempt from VAT;
- Imported goods exempt from customs duties and intended for:
 - i. Official use of diplomatic and consular offices and special missions accredited to Kosovo;
 - ii. Official use of international organizations, if these are laid down by international treaties or agreements which apply to Kosovo;
 - iii. Personal use of the foreign staff of diplomatic and consular special missions accredited to Kosovo, including their family members;
 - iv. Personal use of the foreign staff of international organizations, including their family members, if this is laid down by international treaties which apply to Kosovo;
 - v. Armed Forces of the North Atlantic Treaty Organization and KFOR, for the use of such forces or the foreign civilian staff accompanying them or for the supply of their messes or canteens;
 - vi. Personal use of the foreign staff of contractors of international organizations or foreign governments and their organizations, including their family members, if this is laid down in bilateral agreements which apply to Kosovo.
- Import of catches of fishing vessels and fishing boats used for the purpose of carrying out a fishing activity into a port, provided that the catch is either unprocessed or subject to only those procedures that are necessary to preserve its quality and that, prior to the importation, no supply was performed in accordance with VAT Law;

- Services related to the import of goods, provided that the value of such services is included in the taxable amount in accordance with provisions of VAT Law;
- Gold and other precious metals, bank notes and coins imported by the Central Bank of Kosovo;
- Import of gas through natural gas distribution systems or import of electricity;
- Imported goods that have been placed under a suspense arrangement, a customs procedure with economic impact or a customs approved treatment and are exported out of Kosovo when the goods cease to be covered by the arrangement, procedure or treatment;
- Imported goods for/or by electronic media and printed only for their purposes.

VAT exemption on exportation

- The supply of goods dispatched or transported to a destination outside Kosovo by or on behalf of the vendor;
- The supply of goods dispatched or transported to a destination outside Kosovo by or on behalf of a customer not established within the territory of Kosovo, with the exception of goods transported by the customer himself for the equipping, fuelling and provisioning of pleasure boats and private aircraft or any other means of transport for private use;
- The supply of goods to bodies recognized by the competent Kosovo Authority which export them out of Kosovo as part of their humanitarian, charitable or teaching activities outside Kosovo;
- The supply of services consisting in work on movable property acquired or imported for the purpose of undergoing such work within Kosovo, and dispatched or transported out of Kosovo by the supplier, by the customer if not established within Kosovo or on behalf of either of them;
- The supply of services, including transport and ancillary transactions, but excluding the services exempted, where these are directly connected with the exportation or importation of goods;
- Goods to be carried in the personal luggage of travelers if certain conditions are met.

VAT exemptions related to international transport

- The supply of goods for the fuelling and provisioning of vessels used for navigation on the high seas and carrying passengers for reward or used for the purpose of commercial, industrial or fishing activities, or for rescue or assistance at sea, or for inshore fishing, with the exception, in the case of vessels used for inshore fishing, of ships' provisions;

- The supply of goods for the fuelling and provisioning of fighting ships, falling within the combined nomenclature (CN) code 8906 1000, leaving their territory and bound for ports or anchorages outside Kosovo;
- The supply, modification, repair, maintenance, chartering and hiring of the vessels as provided by VAT Law, and the supply, hiring, repair and maintenance of equipment, including fishing equipment, incorporated or used therein;
- The supply of services which meet the direct needs of the vessels or of their cargoes;
- The supply of goods for the fuelling and provisioning of aircraft used by airlines operating for consideration chiefly on international routes;
- The supply, modification, repair, maintenance, chartering and hiring of the aircraft and the supply, hiring, repair and maintenance of equipment incorporated or used therein.

Special Schemes

VAT law provides special schemes for travel agents, sales by public auction, farmers, for electronically supplied services and for investment in gold.

Transitional period

A transitional period enables the VAT Law in specific fields to be gradually harmonized with the European Union VAT legislation. The transitional period starts on 1 January 2010 and ends on 31 December 2012. Regarding the insurances and reinsurance transactions the transition period ends on 31 December 2014.

LOCAL TAXES

Tax on real estate

All persons that own, use or occupy immovable property are subject to tax on real estate. The annual tax rates may vary between 0.05% and 1% of the market value of the real estate. The tax is paid in two equal installments on or before 30 June and 31 December of the fiscal year.

Excise Tax

Excise tax is applied to a limited number of goods such as coffee, tobacco, alcoholic drinks, soft drinks, derivatives of petroleum and motor vehicles mainly for transport of persons. For goods produced in Kosovo, the excise tax is calculated on the sale price of goods. For imported goods this tax is calculated on the customs value including the import duty. Excise tax is not applied when goods are exported.

Excise tax is not levied on the following:

- Raw and auxiliary materials having the nature of excisable goods that are imported into Kosovo for being used in the manufacture of goods for export;
- Goods to be used exclusively for humanitarian purposes and not in sale to consumers in Kosovo; and
- Goods financed from the grants made to Kosovo government by governments, governmental agencies, governmental or non-governmental organizations, in support of humanitarian and reconstruction programs and projects in Kosovo.

Excise tax is not payable by the following entities:

- Foreign diplomatic and consular missions;
- United Nations or any of its organs including UNMIK, the specialized agencies of the United Nations, KFOR, international inter-governmental organizations and governmental agencies on goods used for official purposes;
- Contractors to UNMIK, the specialized agencies of the United Nations and KFOR importing goods to be used exclusively by those contractors in connection with the performance of contracts for UNMIK, the specialized agencies of the United Nations or KFOR; and
- Registered non-governmental organizations with public benefit status on the following goods used exclusively by the non-governmental organization to fulfill its public benefit purposes: gasoline, kerosene, diesel, and ethanol.

Customs Duties

Customs duties are charged according to imported goods' classification in a 6-digit Harmonized System. Major exemptions from payment of the customs duties are applicable for:

- Imports of goods for official use by diplomatic representatives and consular missions;
- Imports of goods for official use by the United Nations or any of its organs including UNMIK, the specialized agencies of the United Nations, KFOR, the International Committee of the Red Cross (ICRC) and entitled and duly authorized international organizations operating in Kosovo;

- Imports of goods financed from the grants made to UNMIK or through UNMIK, for Ministries, governmental or non-governmental organizations in support of humanitarian and reconstruction programs and projects in Kosovo;
- Specific imports of goods to be used exclusively for humanitarian purposes and not in sale for consumers in Kosovo, as defined by the SRSG.

The tariff nomenclature provides for a customs rate of 10% for all goods imported into Kosovo.

TAXATION OF INDIVIDUALS

GENERAL

Personal Income Tax is governed by Law No. 03/L-161, dated 29 December 2009 “On Personal Income Tax” (“Personal Income Tax Law”) as amended with Law No. 04/L-104, dated 3 May 2012 “On Amending and Supplementing with the Law No.03/L-161 On Personal Income Tax”.

Under Personal Income Tax Law while residents pay tax on all taxable income sources, non-residents pay tax only on income generated within the territory of Kosovo. Residents are considered to be persons who stay in Kosovo, in aggregate for a period or periods exceeding 183 days in a fiscal year.

RESIDENCE

Individuals having their habitual/principal residence in Kosovo or staying in Kosovo for a period of more than 183 days per year are considered Kosovo tax residents.

TAXABLE INCOME

Taxable income for a tax period is the difference between gross income received or accrued during the tax period and the deductions allowable.

Personal income tax is levied on the following categories of income:

- Wages, salaries and other compensation derived from labor relations. These income include basic compensation, overtime compensation, bonuses and any other payment for the performance of employment;
- Income from rent;
- Income from use of intangible property (copyright, licenses, patents etc.);
- Interest from loans, bank deposits, bonds and other interest bearing securities;
- Capital gains including the income from transfer of ownership on real estate (effective from 1 January 2010);
- Lottery and other gambling;
- Other income that increases the taxpayer’s net worth (i.e. any other item of income that is not explicitly exempt).

TAX EXEMPT INCOME

Wages received for the work performed in Kosovo by foreign diplomatic and consular representatives and foreign personnel of international governmental and non-governmental organizations, donor agencies or their contractors (carrying on humanitarian aid or assistance), UN and International Atomic Energy Agency, authorized international inter-governmental financial institutions operating in Kosovo and KFOR, and are exempt from personal income tax.

Additionally, the following income is exempted from personal income tax:

- Compensation for the damage or destruction of property;
- Proceeds of life insurance policies payable as the result of the death of the insured person;
- Reimbursement or compensation for medical treatment paid during the periods of absence from work due to sickness or injury;
- Interest on financial instruments which are issued or guaranteed by a public authority of Kosovo paid to resident or non-resident individuals;
- Dividends received by resident and non-resident individuals;
- Pensions and social welfare payments paid by the Government;
- Assets received, or value of assets received, as a result of inheritance;
- Educational expenses paid by an employer on behalf of an employee provided that such expenses are paid directly to an educational institution that is recognized in accordance with the applicable law in Kosovo and provided that the employee will remain employed at the employer for at least 24 months after the termination of the education for which the expenses are paid by the employer;
- Scholarships received by an individual to attend an institution of higher learning, trade school, or vocational school, so long as the scholarship is paid directly to the institution and no part of the scholarship is refundable to the student;
- Training expenses paid by the employer for the employee, which do not exceed EUR 1,000 in any tax period.

PERSONAL INCOME TAX RATES

Wages, salaries and other compensation for employees will be taxed as follow in Table 8.

Table no 8

Threshold (annual compensation in Euro)		Income tax
0	960	0%
961	3,000	4% of the amount over 960
3,001	5,400	EUR 81.6 + 8% of the amount over EUR 3,000
5,401	And over	EUR 273.6 + 10% of the amount over EUR 5,400

Taxpayers are required to prepare an annual tax declaration for personal income tax on or before 31 March of the following year (see Appendix F).

Taxpayers who receive or accrue income only from one or more of the following sources are not required to submit an annual declaration:

- Wages;
- Interest;
- Rent when the declaration for such income is made on quarterly basis;
- Lottery or other gambling;
- Income from intangible property;
- Income from gifts.

PENSION CONTRIBUTIONS

As per Law No. 04/L-101, dated 8 May 2012 “On Pensions Funds of Kosovo” both of the employer and the employee must pay pension contributions at the level of 5% of the gross monthly salary. Also the employer and the employee may voluntarily contribute an additional amount up to a total of ten percent (10%) of monthly salary for a total maximum of fifteen percent (15%) of the gross salary.

TAXES ON INDIVIDUAL BUSINESS ACTIVITIES

Individuals who carry on independent businesses activities and are not required to be registered as taxable persons for VAT purposes are subject to the tax on business activity. Such tax is paid quarterly, within 15 April, 15 July, 15 October of the current year and 15 January of the subsequent fiscal year.

For taxpayers with an annual gross income from business activities up to EUR 50,000 who are not required to, and do not choose to keep the books and records, the tax amount is:

- three percent (3%) of each quarter's gross income resulting from activities of trade, transport, agricultural and similar commercial activities, but not less than EUR 37.50 per quarter; and
- nine percent (9%) of each quarter's gross income resulting from provision of the services, professional/vocational business activities, entertainment and similar activities, but not less than EUR 37.50 per quarter.

Taxpayers with annual gross income of more than EUR 50,000 who keep books and records, are required to pay personal income tax according to rates shown in Table 8. Expenses incurred during the tax period are deductible from the gross income resulting from business activities.

LABOR LAW IN KOSOVO

GENERAL ISSUES

Employment in Kosovo is governed by the Law No. 03/L-212 “On Labor” published in the Official Gazette no. 90/2010 and entered into force on 15.12.2010 (“Kosovo Labor Law”), Law No. 04/L-101 “On Pension Funds of Kosovo” published in the Official Gazette No.10/2012 and entered into force on 30.03.2012 and the Law No. 04/L-168 on amending and supplementing the Law No. 04/L-101 “On Pension Funds of Kosovo” published in the Official Gazette No. 08/2013 and entered into force on 23.04.2013 (‘Pension Law’) and other normative acts issued by the Kosovo legislative bodies in order to regulate different features of the employment area based on the rapid social and economical changes that occur.

WORKING CONDITIONS

Minimum Age

Eighteen (18) years of age is the minimum age for employment or work. A person between 15 years of age and 18 years of age may only be employed in certain type of works that are not likely to be harmful to employee’s health or development, and are not forbidden by another law or sub legal act. Employment of persons under 15 years of age is prohibited.

Working hours and overtime

The normal weekly working hours should not exceed 40 hours for employees over 18 years of age and 30 hours for employees between 15 years of age and 18 years of age.

Employees are entitled to a rest between two continuous working days lasting for at least 12 consecutive hours.

Overtime work

Kosovo Labor Law makes a distinction between mandatory and voluntary overtime. Mandatory overtime must be performed by the employee in extraordinary cases with the increase of volume of works and in other necessary cases, on the request by the employer. Such overtime must not exceed 8 hours per week.

Besides the mandatory overtime, the employee may perform paid voluntary overtime in agreement with the employer. In such cases, the employee is entitled to a monetary compensation calculated in the following percentages of the basic salary:

- 20% of the basic salary per hour for extra shifts;
- 30% of the basic salary per hour for night shifts;
- 30% of the basic salary per hour for extended working hours (overtime);
- 50% of the basic salary per hour for work on national holidays and weekends.

The employee is entitled to be compensated in days off instead of the allowances defined herein above.

Retirement Age

Pursuant to the Pension Law the retirement age is set at the age of 65 years and the Pension Law makes no distinction with regard to gender.

Anti – discrimination

Kosovo Labor Law contains provisions which prohibit all forms of discrimination characterized by sex, race, religious and ethnical backgrounds. Moreover direct or indirect discrimination of persons with disabilities is prohibited during employment, promotion and career advancement, if that job may be performed adequately by a person with disabilities.

EMPLOYMENT CONTRACTS

As a general rule, according to the Kosovo Labor Law, employment contracts are made in written form, may be stipulated either for limited or unlimited duration or for specific tasks and duties. An employment contract must include at least the following:

- a) the parties, their place of residence, (for the employer the legal seat and the registration number with the Business Register);
- b) the name, kind, nature of work or services and a brief description of the duties;
- c) the place of work, and notification that work will be performed in different locations;
- d) the duration and working hours;
- e) the date of initiation of the work;
- f) the duration of the employment contract;
- g) the amount of the base salary and any additional or other income;
- h) the duration of annual leave;

- i) the termination of the employment relational;
- j) other data considered relevant for the regulation of the labor relation from the parties.

Employment contract types

Kosovo Labor Law provides the following rules on the following types of contracts:

- Employment contract for specific tasks and duties:

This type of contract may not last more than 120 days within a year. The employee does not enjoy the right to annual leave and other rights stipulated in the collective contract.

- Limited duration contract:

This contract may not be concluded for a cumulative period of more than 10 years. If explicitly or tacitly renewed beyond this term, the contract shall be deemed with indefinite duration.

- Employment contract for professional training:

Employer may engage individuals for professional training and performing certain tasks through practical work (i.e. internship relation). The practical work of an intern with university and post-graduate qualification shall not last more than 1 year, whereas the practical work of an intern with secondary education shall not last more than 6 months.

If agreed by the parties, the interns shall not be subject to any salary or other rights deriving from the employment contract (except for the duties of the employer to ensure application of safety rules to these interns). Employers who engage the interns without compensation of a salary shall be obliged to evidence this fact accordingly.

- Probationary Period:

Probationary period may not last more than 6 months and termination of employment contract during this period is done upon written notice of at least 7 days in advance.

- Termination of employment contracts:

Kosovo Labor Law provides for the termination of an employment whenever one of the following events occurs:

- a) the death of the employee;
- b) the death of the employer in cases when the job is strictly connected with the employer personally;
- c) upon expiration of the duration of the contact;
- d) when the employee reaches the retirement age (65 years of age);

- e) upon the date of issue of a definitive decision for loss of labor capacities;
- f) If the employee shall serve a sentence of imprisonment which will last longer than 6 months;
- g) upon a decision of the competent court that leads to the termination of the employment relationship;
- h) in case of bankruptcy or liquidation of the enterprise;
- i) upon agreement of the employer and employee;
- j) other cases specified by Laws in force.

An employment contract may be terminated by the employer upon expiration of a notification period when:

- a) such termination is justified for economic, technical or organizational reasons and is impracticable for employer to transfer, train or qualify the employee for the job or other jobs;
- b) the employee is no longer able to perform the job and is impracticable for employer to transfer, train or qualify the employee for the job or other jobs;
- c) there is a serious case of misconduct;
- d) there unsatisfactory performance of work duties.

An employment contract may be terminated by the employer without providing a period of notice of termination in cases when:

- a) the employee fails to remedy from repeating non serious misconducts or breach of obligations;
- b) the employee's performance remains unsatisfactory in spite of the written warning (provided that the employer has notified in written to the employee the description of the unsatisfactory performance and provide for a probation time for improvement).

Notification periods for termination of employment contract of unlimited duration are as follows:

- from 6 months to 2 years of employment: 30 calendar days;
- from 2 - 10 years of employment: 45 calendar days;
- above 10 years of employment: 60 calendar days.

The employer may terminate a limited duration employment contract upon 30 calendar days notice. The employer who does not intend to renew a limited duration contract must inform the employee at least 30 days before the expiry of the contract.

Collective Agreement

A collective agreement may be concluded between:

- a) organization of employers and their representatives and
- b) organization of employees or, in cases where there are no such organizations, the agreement may be concluded by the representatives of employees.

A collective agreement may be concluded at:

- a) state level;
- b) branch level; or
- c) enterprise level.

A collective agreement may be for a limited duration of no more than 3 years. A collective agreement shall apply to employers and its employees who agree to be bound by such collective agreement.

HOLIDAYS/PAID LEAVE

Leaves and Absence from Work

The Law provides for the following new rules on annual leave:

- newly hired employees having worked for at least 6 continuous months are entitled to a paid annual leave in proportion with the months of work;
- after the first year of employment, the employees are entitled to a paid annual leave of at least 4 weeks during the calendar year, regardless whether employment is full or part time;
- annual leave shall be taken no later than 30 June of the following calendar year.

Other paid leaves consist of:

- 2 days for the father in case of birth or adoption of a child;
- 5 days in case of employee's marriage;
- 5 days in case of death of the close family member;
- 1 day in each case of voluntary blood donation.

Further, in case the work conditions are not satisfactorily secured or fail to protect the health and life of the employee, as set forth in a decision of the authorized state body or employer's body, the employee shall be entitled to a paid justified absence from work for a maximum period of 45 days within a calendar year.

Unpaid leaves comprise the following:

- an indefinite period based on a request of the employee to the employer;
- 2 weeks for the father after the birth or adoption of the child, granted at any time before the child reaches the age of 3 years (upon 10 days prior notification to the employer).

Maternity leave

Pregnant women are entitled to 12 months of maternity leave to be taken upon a medical certificate 45 days before giving birth or, if consented by the woman, 28 days before the expected childbirth.

The first 6 months of maternity leave are compensated with 70% of the salary payable by the employer, the consecutive 3 months are compensated with 50% of the salary payable by the Government of Kosovo and the last 3 months are not subject to monetary compensation. Before the entry into force of the new Law, maternity leave consisted of 12 weeks entirely payable from the employer at the amount of 2/3 of the salary.

Sick leave

During an ordinary sick leave, the employee shall be entitled to receive his/her entire salary for a period of leave up to 20 working days within 1 year, while for occupational injury and related illness (e.g. accident at work) the payment shall consist of 70% of the salary. Payment for compensation for sick leave binds on the employer. It is to be noted that the forthcoming legislation on care and protection of health may provide for additional or other rules on the subject matter.

National Holidays

National Holidays in Kosovo shall be observed by employers and the employee is entitled to compensation during such National Holidays, as it was a normal working day.

Health and Safety at Work

Women, persons under 18 years old and disable persons enjoy special protection under the Kosovo Labor Law. Specifically, persons less than 18 years old should not work under conditions which, given their nature or circumstances, damage the health, safety or the moral of the employee. While, pregnant and breastfeeding women shall be prohibited to conduct labor activities that are classified as harmful for the health of the mother or the child.

Pregnant women, mothers with a child under the age of 3 years or a child with serious disability shall not be obliged to perform overtimes on night shifts. Maternity rights may be exercised from the father in case of sickness, abandoning of the child and/or death of the mother.

An employee that suffers a disability shall be entitled to work in his position or other relevant tasks, if he may perform the duties without the need for professional

rehabilitation. The employer is obliged to ensure the adequate type of work for the employee professionally rehabilitated after the recovery.

Transfer of Employees

Employees may be transferred in other job positions, with or without their prior consent, subject to the following rules set forth under the Kosovo Labor Law:

An employee may be reassigned without consent to perform a job which requires a lower professional qualification than the one the employee possesses, in cases:

- (i) when there is an extraordinary situation as a consequence of an earthquake, fire, flooding or other natural catastrophes until the condition prevails;
- (ii) when there is a need to replace an absent employee from work but no longer than 30 working days;
- (iii) of sudden increase in workload, but not longer than 30 working days.

An employee may be reassigned temporarily with consent, to a job which requires the same professional qualification in cases when:

- (i) it was ascertained that there is no need for the work of the employee;
- (ii) the post is temporarily terminated or there is a decrease in the volume of work;
- (iii) working space, respectively working tools are rented temporarily to an other employer.

The Kosovo Labor Law entitles such employee to conclude an employment contract with the new employer. After the termination of the temporary reassigned period the employee is entitled to return to work to the previous employer in the same post or some other post that corresponds to employee's professional qualification.

In case of statutory change and change of employer, the Kosovo Labor Law stipulates that the next employer is obliged to take over all obligations and responsibilities of the employment relationship from the previous one in compliance with the collective contract and employment contract.

ACQUISITION AND REGISTRATION OF IMMOVABLE PROPERTY

REGISTRATION OF IMMOVABLE PROPERTY

The registration of immovable properties in Kosovo is regulated under the Law No. 04/-L-013 “On Cadastre”, the Law No. 2002/5 “On the establishment of the immovable property rights register”, as amended, and by the Law No. 03/L-154 dated 25.06.2009 “On property and other real rights”.

While the Register of Immovable Property Rights is established as a mechanism to implement and validate immovable property rights in Kosovo, the Cadastre constitutes the Official Register that includes the registration of land parcels, buildings, parts of buildings and conductive of underneath buildings in Kosovo.

Based on the Law on Cadastre, Kosovo Cadastral Agency is the responsible authority for the Cadastre and for maintaining the overall official evidence on immovable properties pursuant to the recorded dates of registration and supervising the cadastral activity as well as the issue of secondary legislation concerning cadastral activity.

The Municipality Cadastral Offices (MCO's) are entitled by law to record the immovable properties located in the area under the municipality jurisdiction.

The cadastral register contains all the data necessary for identifying immovable property and parties bearing rights over such property, such as the identity of the owner, surface, property number, divisions, if any, borders of property, date of registration, relevant plans that show the location of property, etc.

The Law on the establishment of the immovable property rights register, as amended, enables the registration of rights as follows: (i) ownership (on land, buildings, parts of buildings – apartments and commercial premises); (ii) mortgages; (iii) servitudes and (iv) the rights of use of municipal, public, social and state property; and (v) property burdens and charges.

For an initial registration of an immovable property, a written application should be filed with the MCO under the jurisdiction of which is located the property subject to registration.

Together with the application requesting the registration of the immovable property right, one of the following documents shall be attached in order to support the immovable property right: (i) competent court decision; (ii) the decision of the state administrative body; (iii) the contract for transfer of immovable property rights certified by the competent body; (iv) the decision or contract for the privatization issued by the Kosovo Privatization Agency; (v) the Commission's decision for the Reconstruction of Cadastre; (vi) the Commission's decision for the regulation of lands; and (vii) any other document that by special laws is pertinent to the property rights registration.

The MCO shall decide whether to accept or reject the application for registering the immovable property right, no later than fifteen (15) days after the application filing date and inform the applicant accordingly about its decision. The registration shall be effective upon the record of the decision of the MCO into the said register.

In case of a rejection from MCO to register the immovable property right, 30 days after receiving the written information, the concerned party may request from MCO reconsideration of its decision.

In case of claims where parties fail to agree on any solution, the competent court shall have jurisdiction to rule on the dispute. Upon the decision of the court the MCO shall proceed with the registration.

LAND ACQUISITION AND RELATED MATTERS

Land in Kosovo is categorized as agricultural and construction land. Public construction land can be acquired by private persons/entities only upon the decision of the municipality and/or Ministry of Environment, or privatization procedures. In contrast, construction land other than public or social can be freely acquired from private persons/entities.

Land Lease

According to Law no. 03/L-040 “On Local Self Government” the municipalities have the right to sell and lease immovable and movable property with the exception of the sale of the land that is regulated by a special law.

The UNMIK Regulation no. 2003/13 “On the Transformation of the Right of use to Socially Owned Property” establishes the possibility of leasing land for commercial purposes for a term of 99 years. In addition, the Law no. 02/L-26 “On agricultural land” stipulates that the agricultural land may be leased to natural and legal persons, local or foreign, involved in agricultural activities and may not be subleased without consent of owner, with exemption of cases to the transfer of the right of use for 99 years.

Agricultural land may be leased in the form of (i) long term lease (over 3 years); (ii) short term lease (up to 3 years); and (iii) grazing lease.

Investors can also get a lease hold for land from the municipality under which jurisdiction is located the said land for the term of 10 years with an extension opportunity up to 99 years.

GOVERNMENT CONTROLS

COMPETITION LAW

Competition in Kosovo is governed by Law No. 03/L-229 “On the Protection of Competition”, published in the Official Gazette No. 88/2010 on 25.11.2010, amended with the Law No. 04/L-226 “On Amending and Supplementing the Law No. 03/L-229 on Protection of Competition” published in the Official Gazette No. 17/2014 on 10.03.2014 (hereinafter “The Law” or “Competition law”) and the secondary legislation passed for the implementation of the law such as: Administrative Instruction No. 04/2012 “On the Form and Content of Legitimacy”, Administrative Instruction No. 05/2012 “On Criteria and Terms for Determining Agreements of Minor Importance”, Administrative Instruction No. 06/2012 “On Forms of Submitting Requests and Criteria for Determining Concentration of Enterprises”, Administrative Instruction No. 07/2012 “On Criteria to Reduce or Release Administrative Measures”.

The Competition Law and the administrative instructions adopted for its implementation are in line with the EU Competition policy and regulations. Competition Law regulates concentration of enterprises, restrictive agreements, abuse of a dominant position carried out from “undertakings” with the purpose of restricting, suppressing and distorting competition in the Kosovo market.

For purposes of this Law, all persons being individuals or public or private legal entities, engaged in commercial activity either local or foreign provided that their activity has an impact on the national market are considered “undertakings”. Prohibited actions are related to those carried out within the territory of Kosovo or having economic effects in Kosovo.

AGREEMENTS RESTRICTING COMPETITION

Competition Law prohibits all agreements between two or more independent undertakings, decisions made by business associations and concerted practices that aim or may significantly impact on market competition in the relevant market, and in particular those that:

- (i) directly or indirectly impose purchase or sale price or any other condition in trade;
- (ii) limit or control production, market, technological development and investments;
- (iii) share markets or supply sources;

- (iv) implement unequal conditions for similar transactions with other enterprises, consequently placing them in an unfavorable competitive position;
- (v) apply conditions for agreements on contracts to rely on other contracting subjects, through other supplementing conditions that do not have any natural or common trade practice connection to the object of such contract.

The provisions of the Competition Law contains also some exclusions and exemptions from such prohibition. For example the Law attributes to the Kosovo Competition Authority the power to assess if horizontal agreements such as the rationalization or specialization agreements, vertical agreements and IP agreements meet the legal conditions to benefit from the exemption. The law provides also for the exemption of *de minimis* agreements. The Administrative Instruction No. 05/2012 “On Criteria and Terms for Determining Agreements of Minor Importance” (the ‘Instruction’) defines the *de minimis* agreement as those agreements entered:

- (i) among competitors (either actual or potential), if the total market share for the parties in the agreement and enterprises under their control does not exceed 10% in any relevant market affected by the agreement;
- (ii) among non-competitors (either actual or potential), if the market share of each party to the agreement does not exceed 15% in the relevant market in which the agreement have an impact;
- (iii) among enterprises, when it is not possible to determine whether the parties to the agreement are either actual or potential competitor or among enterprises which are not actual or potential competitors in the relevant market; if the market share of each party to the agreement does not exceed 10% in the relevant markets affected by the agreement.

The said instruction also defines severe competition restriction clauses under which an agreement would not benefit from the exemption, notwithstanding the fact that the agreement per se would fall under any of the criteria listed from (i) to (iii) above.

ABUSE OF DOMINANT POSITION

A dominant position is not prohibited per se, but only the abuse of dominance falls under the prohibition established by the Competition Law. The Law recognizes the existence of a single (one undertaking) and collective (two or more undertakings) dominant position.

An undertaking will be considered in a dominant position if it is not exposed to substantial competition or has a superior market power in relation to its existing or potential competitors. The Competition Law provides for a presumed dominant position, if the undertaking has a market share higher than 25%. Anyhow, this presumption will not be applicable if the undertaking convincingly demonstrates that it is exposed to substantial competition or that it has no superior market position in relation to its competitors.

As regards collective dominance, under the law, two or more undertakings are considered holding a dominant position if, vis-à-vis their competitors, they act together

on the market and if their general market share is higher than 40%.

The burden of ascertaining that a participant may have the dominant position in the market, whose share in the market is lower than twenty five percent (25%), respectively in cases of collective dominance, is lower than 40% falls on the Kosovo Competition Authority.

According to the Competition law the abuse of dominant position occurs in case of:

- (i) direct or indirect setting of unreal purchase or sale prices and other unfair trade conditions, respectively;
- (ii) limitation of production, markets or technological development to the prejudice of consumers;
- (iii) implementation of different conditions for similar duties with other enterprises thereby placing them in a disadvantageous competitive position;
- (iv) agreeing on contracts under condition that other contracting parties accept additional obligations;
- (v) setting prices or other conditions, the objective or the result of which is to prevent entering or exclude certain competitors or one of their products from the relevant market;
- (vi) refusal of involvement of another enterprise, without granting appropriate compensation, in the network or infrastructure of the enterprise with dominant position, if this denial of use of the network or infrastructure prevents the other enterprise from acting as a competitor of the enterprise with dominant position.

CONCENTRATIONS

Competition Law prohibits concentrations of enterprises, which may significantly damage competition, in particular when such concentration results in strengthening of a current dominant position or creation of a new dominant position.

Subject to the Competition Law, the concentration of enterprises is created by installing permanent control which is acquired through:

- (i) Merger of two or more independent enterprises or parts of these enterprises;
- (ii) Acquisition of direct or indirect control, or influence on the dominating position of one or more enterprises or parts of enterprises, by:
 - taking over majority of shares or of a part of them,
 - taking over majority voting rights and
 - in another way in the sense of provisions of laws in force and other regulations.

Competition Law provides that the acquisition of control is achieved by transferring the rights, contracts or other acts through which one or more enterprises, either in-

dividually or together, taking into consideration all legal and factual circumstances, acquire the possibility to achieve influence of the dominant position for one or more enterprises in permanent basis.

Also creation of a joint venture from one or more independent enterprises, which works on permanent basis as an independent economic subject, shall be considered as concentration. A concentration shall be subject to the clearance and approval of the Kosovo Competition Authority if the following thresholds are met:

- (i) determined income of all participating undertakings together, in international market, exceed EUR 20 million, based on financial reports of the financial year preceding the concentration year, and if at least one of the participating undertakings is located in the Republic of Kosovo; and
- (ii) general income of at least 2 participating undertakings in Kosovo domestic market, exceeds EUR 3 million based on financial reports preceding the year of concentration.

In order to obtain clearance by the Competition Authority, any applicant should submit to the said authority a notification on the concentration together with several documents set forth in the Competition Law and the Administrative Instruction no. 06/2012 "On Forms of Submitting Requests and Criteria for Determining Concentration of Enterprises".

In case the Competition Authority assesses that the concentration may significantly affect competition in the relevant market, the said authority performs within 90 days from the date when the notification file is complete, an in depth assessment of the concentration. As a result the Authority will issue a decision either to: (i) approve the concentration; or (ii) approve the concentration with conditions and obligations; or (iii) prohibit the concentration.

The following costs are due in order to follow the procedures of the Competition Authority:

- (i) a filing fee of EUR 100;
- (ii) a fee of EUR 2,000 for obtaining the temporary concentration clearance;
- (iii) a fee of EUR 3,000 for obtaining the concentration clearance.

Penalties: The Kosovo Competition Authority may impose disciplinary measures in an amount up to 10% of the total incomes of the enterprise realized during the last year for which the final report has been completed if the company participates in the execution of prohibited concentrations of enterprises.

APPENDIX A

USEFUL ADDRESSES IN PRISTINA

Country Code:	381
Pristina City Code:	38
General information:	Tel: 988
Ambulance:	Tel: +381 (0) 38 94/500 600/223 987
Fire Brigade:	Tel: +381 (0) 38 93/500 997
Police Station:	Tel: +381 (0) 38 911/92/541 277
Radio Taxis:	Tel: +381 (0) 38 555 333/515 151/ +377 44 111 222
Pristina Airport:	Tel: +381 (0) 38 59 58 123

Main Hotels

Grand Hotel Pristina

Nena Tereze Str., p.n., 38000, Pristina, Kosovo
Tel: +381 38 220 210 / 220 211
E-mail: info@grandhotel-pr.com

Swiss Diamond Hotel Pristina

Nene Teresa Square, 10 000 Pristina, Kosovo
Tel: +381 (0) 38 220 000
Email: reservations@sdhprishtina.com

Emerald Hotel

Pristina-Skopje Highway, 10000 Pristina, Kosovo
Tel: +381 (0) 38 588 888/+381 (0) 38 588 888 512
Email: reservation@emeraldhotel.info

Sirius Hotel Pristina

Agim Ramadani Str., Pristina, Kosovo

Tel: +381(0) 38 222 280

E-mail: info@hotelsirius.net

Hotel Victory

Nena Tereze Str., p.n., 10000, Pristina, Kosovo

Tel: +381 38 543 277/543 267

E-mail: info@hotel-victory.com

Hotel Pristina

Vaso Pasha Str., no. 20, 10000, Pristina, Kosovo

Tel: +381 38 223 284

E-mail: reservations@hotel Pristina.com

Hotel Afa

Ali Kelmendi Str., no 15, 10000, Pristina, Kosovo

Tel: +381 38 225 226/225 227

E-mail: office@hotelafa.com

Hotel Baci

Bulevardi i Deshmoreve Str., p.n.10000, Pristina, Kosovo

Tel: +381 38 548 356/548 357

E-mail: hotel@bacompany.com

Hotel Gorenje

Veternik Str., 10000, Pristina, Kosovo

Tel: +381 38 557 700

E-mail: info@hotel-gntc.com.com

Hotel Princi i Arbrit

Asllan Pireva Str., Kodra e Trimave, 10000, Pristina, Kosovo

Tel: +381 38 244 244/244 442

E-mail: info@hotel-princi-arberit.com

Hotel Dea

Velani Str., 10000, Pristina, Kosovo

Tel: +381 38 516 770/516 772

E-mail: info@hotel-dea.com

Restaurants

Puro

Near building Gorenje (Veternik), Pristina, Kosovo

Pristina, Kosovo

Tel:+381 (0) 38 545 -099

Pisha

Nene Teresa Str., Pristina, Kosovo

Pristina, Kosovo

Tel:+381 (0) 38 227-051

Liburnia

Meto Bajraktari Str., No. 3 Tophane, Pristina, Kosovo

Pristina, Kosovo

Tel:+381 (0) 38 222-719

Tiffany

Fehmi Agani Str., Pristina, Kosovo

Pristina, Kosovo

Tel:+381 (0) 38 244 040

Pinochio

24 Maji Str., No.115, Pristina, Kosovo

Pristina, Kosovo

Tel: + 381 (0) 44 202 952

APPENDIX B

LIST OF BANKS AND OTHER FUNDING AGENCIES

ProCredit Bank Kosovo

Nena Tereze Str., No. 16, Pristina, Kosovo

Tel: + 381 (0) 38 555-555

Fax: + 38 246 189

Web: www.procreditbank-kos.com

NLB Pristina

Nena Tereze Str., No. 49/a, Pristina, Kosovo

Tel: + 381 (0) 38 230 111

Fax: + 381 (0) 38 246 189

Web: nlbprishtina-kos.com

Raiffeisen Bank Kosovo

UCK Str., No. 51, Pristina, Kosovo

Tel: +381 (0) 38 222-222

Fax: +381 (0) 38 226-408

Web: www.raiffeisen-kosovo.com

TEB

Agim Ramadani Str., No 15, 10000 Pristina, Kosovo

Tel: +381 (0) 38 230-123

Fax: +381 (0) 38 224-699

Web: www.teb-kos.com

Economic Bank

Migjeni Str., No. 1, 10000 Pristina, Kosovo

Tel: + 381 (0) 38 225-353

Fax: + 381 (0) 38 225-454

Web: www.bekonomike.com www.bankaeconomike.com

Bank for Business

UÇK Str., No. 41, 10000 Pristina, Kosovo

Tel; +381 (0) 38 244 666

Fax; + 381 (0) 38 243 656/657

Web: www.bpbbank.com

<http://www.bkpbank.com>

Banka Kombetare Tregtare - Pristina Branch

Qyteza Pejton, Kosta Novakovic Str., No.9, 10000 Pristina, Kosovo

Tel: +381 (0) 38 222 910

Fax: + 381 (0) 38 222 907

Web: www.bkt.com.al

APPENDIX C

GOVERNMENT INSTITUTIONS, INTERNATIONAL ORGANIZATIONS, EMBASSIES

IPAK-(Government entity under Ministry of Trade and Industry in Kosovo)

Investment Promotion Agency of Kosovo

Muharrem Fejza str. n.n., Lagja e Spitalit, 10000 Pristina, Kosovo

Phone: +381 (38) 200 36 542

FAX: +381 (38) 212 807

info@invest-ks.org

Ministry of Economy and Finance

Bill Clinton Str., 10000, Pristina, Kosovo

Tel: + 381 38 540-564

Fax: + 381 38 548-673

Web: www.mfe-ks.org www.mef-ks.org

Ministry of Trade and Industry

Muharrem Fejza Str., Hospital neighborhood, 10000, Pristina, Kosovo

Tel: + 381 38 512-164

Fax: + 381 38 512-798

Web: www.mti-ks.org

Ministry of Environment and Spatial Planning

Nazim Gafurri Str., No.31, 10000, Pristina, Kosovo

Tel: +381 38 517-639

Fax: + 381 38 517-845

Web: www.ks-gov.net/mmph.

Ministry of Education, Science and Technology

Dardania, Block III, Musine Kokalari Str. No. 18, Pristina, Kosovo

Tel: + 381 38 541-035

Fax: + 381 38 540-785

Web: www.masht-gov.net

Ministry of Labour and Social Welfare

Agim Ramadani Str. (Building of Economic Faculty), Pristina, Kosovo

Tel: + 381 38 213-814

Fax: + 381 38 213-814

Web: www.ks-gov.net/mpms

Ministry of Public Services

Mother Teresa Str. (Building of GERMIA), Pristina, Kosovo

Tel: + 381 38 211-014

Fax: + 381 38 211-061

Web: www.ks-gov.net/MPAP

Ministry of Transport and Post-Telecommunication

Mother Teresa Str. (Building of Kosovo Assembly), Pristina, Kosovo

Tel: +381 38 504-604 ext.5949

Fax: + 381 38 200-28 ext.004

Web: www.mtpt.org.mtpt.org

Ministry of Foreign Affairs

Mother Teresa Str. (Government Building), Pristina, Kosovo

Tel: +381 (0) 38 213-963

Fax: +381 (0) 38 213-985

Web: www.ks-gov.net/MPJ

Ministry of Intern Affairs

Mother Teresa Str. (Government Building), Pristina, Kosovo

Tel: +381 (0) 38 200 190 88

Web: www.mpb-ks.org

Ministry of Agriculture, Forestry and Rural Development

Mother Teresa Str., No. 35, Pristina, Kosovo

Tel: +381 (0) 38 211-821/200 384 52

Web: www.ks-gov.net/mbpzhr

Ministry of Justice

Mother Teresa Str., Building of Kosovo Assembly, Pristina, Kosovo

Tel: +381 (0) 38 200-18-010

Web: www.md-ks.org

Ministry of Community and Return

Ex-bank of private business, Pristina, Kosovo

Tel: +381 (0) 38 552-047

Web: www.mkk-ks.org

Ministry of Health

Zagreb Str., 10000, Pristina, Kosovo

Tel: +381 (0) 38 213-886

Web: www.msh-ks.org

Ministry of Culture, Youth, Sport and Nonresidential Affairs

Mother Teresa Str., 10000, Pristina, Kosovo

Tel: +381 (0) 38 211-064/211-557

Fax: +381 (0) 38 211-440

Web: www.mkrs-ks.org

Ministry of the Local Government Administration

Urata Building, Tirana Str., Pristina, Kosovo

Tel: +381 (0) 38 213-010

Fax: +381 (0) 38 213-904

Web: www.mapl-ks.org

Ministry of Energy

Mother Teresa Square, Pristina, Kosovo

Tel: +381 (0) 38 200 215 05

Web: www.ks-gov.net/mem

International Organizations

World Bank

Mujo Ulqinaku Str., No 3, 10000, Pristina, Kosovo

Tel: +381 (0) 38 249 459

Fax: +381 (0) 38 249 780

Web: www.worldbank.org/kosovo

United Nations Mission in Kosovo

Industrial Zone, 10 000 Pristina, Kosovo

Tel: +381 (0) 38 504 604 4000

Web: www.unmikonline.org

United Nations Development Programme (UNDP)

Pejton Str., No. 14, Pristina, Kosovo

Tel: +381 (0) 38 249 066

Fax: +381 (0) 38 249-067

Web: www.ks.undp.org

Organization for Security and Co-operation in Europe (OSCE)

Prishtinë/Priština

Office: +381 38 500 162

Office: +381 38 240 100

Fax: +381 38 240 711

Email: press.omik@osce.org

European Commission Office in Kosovo

Kosovo Str. 1 (P.O. Box 331), Pristina, Kosovo

Tel: +381 38 51 31 200

Fax: +381 38 51 31 305

Web: www.delprn.ec.europa.eu

International Organization for Migration

Rr. Ismail Qemajli, Arberia II, 1000, Pristina, Kosovo

Tel: +381 (0) 38 249 042/249 041

Fax: +381 (0) 38 249-039

Web: www.iomkosovo.org

Embassies

Embassy of Albania

Mujo Ulqinaku Str., No .18, Qyteza Pejton, Pristina, Kosovo

Tel: +381 38 248208/248368

Embassy of Austria

Fan Noli Str., No. 22, Arberia 1, Pristina, Kosovo

Tel: +381 38 249284

The Belgium Diplomatic Office

Taslixhe Str. 1, No. 23A, Pristina, Kosovo

Tel: +381 38 518918

Embassy of Bulgaria

Ismajl Qemajli Str., No.12, Arberia, Pristina, Kosovo

+381 38 245 540

The Office of China

Ismajl Qemajli Str., No.47, Arberia, Pristina, Kosovo

Tel: +381 38 604 508

The Embassy of Croatia

Fehmi Agani Str., 69/A-1, Pristina, Kosovo

Tel: +381 38 223320/223979

Embassy of the Czech Republic

Ismajl Qemajli Str., No.31, Arberi, Pristina, Kosovo

+381 38 246 676/225860

Embassy of Finland

Perandori Justiani Str., No.19, Lagja Payton, Pristina, Kosovo
+386 43 737000/723775

Embassy of France

Ismajl Qemajli Str., No.67, Arberia, Pristina, Kosovo
+381 38 22 45 88 ext.00

Embassy of the Federal Republic of Germany

Azem Jashanica Str., No.17, Arberia 2, Pristina, Kosovo
Tel: +381 38 254500

Liason Office of Greece

Ismajl Qemajli Str., No.68, Arberia 2, Pristina, Kosovo
Tel: +381 38 247370/1/2/243013

Embassy of Hungary

24 Maji Str., No.23, Arberia, Pristina, Kosovo
Tel: +381 38 247763/248004

Embassy of Italy

Azem Jashanica Str., No.5, Arberi, Pristina, Kosovo
Tel: +381 38 244925

Liaison Office Entrusted by the Government of Japan

Rexhep Mala Str., No.43, Pristina, Kosovo
Tel: +381 38 245433/249995

Embassy of the Grand Duchy of Luxembourg

Metush Krasniqi Str., No.14, Arberia, Prishtina, Kosovo
+381 38 226787/247842

Embassy of the Republic of Macedonia

24 Maji Str., No. 121, Arberia, Pristina, Kosovo
Tel: +381 38 247462

Embassy of Montenegro

Nëna Terezë Str., 28/3, 10000, Pristina, Kosovo

Tel: +381 38 222048

Embassy of the Netherlands

Xhemajl Berisha Str., No.12, Velani, Pristina, Kosovo

Tel: +381 38 516101/516102

Royal Norwegian Embassy

Sejdi Kryeziu Str., Block 4, Qyteza Pejton, Pristina, Kosvo

Tel: +381 38 23211100

Liaison Office of Romania

Azem Jashanica Str., No. 25, Arberia, Pristina, Kosovo

Tel: +381 38 246272

Russian Office

Eduard Lir Str., No.20, Arberi, Pristina, Kosovo

Tel: +381 38 247112

Liaison Office of the Slovak Republic

Metush Krasniqi Str., No.7, Arberi, Pristina, Kosovo

Tel: +381 38 240140

Embassy of Slovenia

Anton Qeta Str., No.6, Aktash 1, Pristina, Kosovo

Tel: +381 38 246255

Embassy of Sweden

Perandori Justian Str., No.19, Qyteza Payton, Pristina, Kosovo

Tel: +381 38 245795

Embassy of Switzerland

Adrian Krasniqi Str., No.11, Pristina, Kosovo

Tel: +381 38 248088/089

Embassy of Turkey

Ismajl Qemajli Str., No.59, Arberia, Pristina, Kosovo
Tel: +381 38 226044/226045

British Embassy

Ismajl Qemajli Str., No. 6, Arberia, Pristina, Kosovo
Tel: +381 38 254700

United States Embassy

Nazim Hikmeti, No.30, Arberi, Pristina, Kosovo
Tel: +381 38 59593000

European Union Office / EU Office

Kosovo Str., No.1, 10000, Pristina, Kosovo
Tel: +38 51 31323/31200

Council of Europe

Bedri Pejani Str., No.5, Pristina, Kosovo
Tel: +381 38 243 749/750/751

APPENDIX D

CORPORATE INCOME TAX RETURN

[1] Tax Period (YYYY)

[2] Serial No.: CIT

[3] Business Registration Number

--	--	--	--	--	--	--	--

[4] Taxpayer Name

[5] Taxpayer's Address (If different from last form)

[6] Owner

Tel:

[7] Manager

Tel:

[8] Accountant/Bookkeeper

Tel:

[9] If the tax declaration is to amend a declaration filed previously for the same tax period, put an 'X' in the box that describes the type of amendment.

Addition

Correction

Payment Only

Signature and Stamp

Account
Number:

[10] Amount of Tax paid

Date ___/___/___

10] Net profit (loss) as per financial statements

[10]

Adjustments to Income

[11] Foreign source of income (schedule A)

[11]

[12] Recovery of bad debts (schedule B)

[12]

[13] Capital gains (schedule C)

[13]

[14] Dividends (schedule D)

[14]

[15] Other income/gains (schedule E)

[15]

[16] Total adjustments to income (add lines 11 to 15)

[16]

[17] Profit (loss) after adjustments to income (line 10 + line 16)

[17]

Adjustments to Expenses

[18] Non-deductible expenses (schedule F)

[18]

[19] Representation costs (schedule G)

[19]

[20] Reserve funds (schedule H)

[20]

[21] Payments to related persons (schedule I)

[21]

[22] Depreciation (schedule J)

[22]

[23] Amortization (schedule K)

[23]

[24] Special allowance for new assets (schedule L)

[24]

[25] Capital loss (schedule C)

[25]

[26] Other expenses (schedule M)

[26]

[27] Total adjustments to expenses (add lines 18 to 26)

[27]

[28] Profit (business loss) after adjustments to expenses (line 17 - line 27)

[28]s

[29] Charitable contributions (attach receipts)

[29]

[30] Loss carried forward (refer to the guide)

[30]

[31] Add lines 29 and 30

[31]

[32] Adjusted profit before rate adjustment (line 28 - line 31)

[32]

[33] Rate adjustment (NGO-s only)

[33]

[34] Net profit (loss) (line 32 x line 33)

[34]

Refund or Amount Due

[35] Corporate income tax (If line 34 is a profit, multiply by 20%. If line 34 is a loss, enter 0). [35]

[36] Foreign states tax credit (schedule O) [36]

[37] Tax withheld on dividends, interest, royalties and rent by resident payers (schedule P) –attach certificates [37]

[38] Installments paid (Schedule Q) [38]

[39] Total credits (add lines 36, 37 and 38) [39]

[40] Line 35 less line 39 [40]

If the result on line 40 is (+), you have an Amount Due. If the result on line 40 is (-), you have a refund. Write the amount in the appropriate box.

[41] Amount Due

[42] Refund [41]

[43] Bank Name [42]

[44] Account Holder

[45] Account Number

I declare that the facts reported in this tax declaration are true.

Name and signature of authorized person

(_____)

____ . ____ . ____

APPENDIX E

CORPORATE INCOME TAX DECLARATION AND PAYMENT FORM

Balance Sheet

As at 31 December 200X

In thousands of EUR

Note 200X 200(X-1)

Assets

Cash and cash equivalents 1

Bank deposits

Trade receivables 2

Inventories 3

100 Prepayments for current assets 4

Total current assets

Property, plant and equipment	5
Financial leasing	6
Investments	7

Total non-current assets**Total assets****Liabilities**

Bank overdraft	
Trade payables	8
Accrued expenses	9
Current portion of financial leasing	10
Payable dividends	11
Current tax payables	12

Total current liabilities

Non-current loans and borrowings	13
Financial leasing	14

Total non-current liabilities**Total liabilities****Equity**

Share capital	15
Reserves	16
Retained earnings	17

Total equity**Total equity and liabilities**

Income Statement

For the year ended 31 December 200X

In thousands of EUR

	Note	200X	200(X-1)
Sales		18	
(discounts)			
(returned sales)			

Net revenue	
Cost of sales	19

Gross profit

Operating expenses

Distribution expenses	
Employees costs	
Commissions	
Advertising expenses	
Depreciation of sales equipment	20

Administrative expenses

Employees costs	
Bad debts expenses	
Stationeries	
Depreciation of office equipment	20
Depreciation of buildings	20
Insurance premiums	
Other expense	

Results from operating activities

Other income	
Income from dividends	
Income from interest	
Other expenses	
Interest expense	
Income tax expense	21

Net profit for the period

CASH FLOW

Indirect method

For the year ending 31 December 200X	In thousands of EUR	
	200X	200(x-1)

Cash flow from operating activities

Profit before taxation

Adjustments for:

Depreciation

Foreign exchange loss

Investment income

Interest expenses

Increase/decrease in trade and other
receivables

Increase/decrease in inventories

Increase/decrease in trade payables

Cash generated from operations

Interest paid

Income tax paid

Net cash from operating activities

Cash flow from investing activities

Acquisition of subsidiary X net of cash acquired

Purchase of property, plant and equipment

Proceeds from sale of equipment

Interest received

Dividends received

Net cash used in investing activities

Cash flow from financing activities

Proceeds from issue of share capital

Proceeds from long-term borrowing

Payment of finance lease liabilities

Dividends paid

Net cash used in financing activities

**Net increase/decrease in cash and cash
equivalent**

Cash and cash equivalent at beginning of the period

Cash and cash equivalent at end of the period

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 200X

In thousands of EUR

	Share capital	Premiums	Legal and statutory reserves	Retained earnings	Total equity
Balance at 31 December 200X-2					
Changes in accounting policy					
Restated balance					
Net profit of the current year					
Dividends paid					
Increase of reserves					
Issuance of shares					
Balance at 31 December 200X-1					
Net profit of the current year					
Dividends paid					
Issuance of shares					
Balance at 31 December 200X					

APPENDIX F

ANNUAL DECLARATION AND PAYMENT FORM FOR PERSONAL INCOME TAX

[1] Tax Period (YYYY)

[2] Serial No.: PI

[3] UNMIK PN/Individual TaxpayerNumber:

--	--	--	--	--	--	--	--	--	--

[4] Taxpayer's Name

[5] Taxpayer's Address (if different from last form)

[6] Telephone

[7] Put 'X' on the appropriate category if not filing for the first time for this tax period.

Addition

Correction

Payment only

[9] If the tax declaration is to amend a declaration filed previously for the same tax period, put an 'X' in the box that describes the type of amendment.

Addition

Correction

Payment Only

Gross Income

[8] Gross Wages	[11]	
[9] Gross Business Income	[12]	
[10] Profit Shares from Partnerships	[13]	
[11] Gross Rents	[14]	
[12] Gross Income form Pension Payments	[15]	
[13] Gross Interest Income		[16]
[14] Gross Dividend Income		[17]
[15] Gross Lottery Winnings		
[16] Gross Income from Intangible Property		
[17] Capital Gains (suspended till 2010)		
[18] Foreign Source Income		
[19] Other Income (Specify)		
[20] Total Gross Income (add 8 to 19)		

Allowed Expenses

[21] Business expenses, actual or 25% of business income	[18]	
[22] Expenses related to rental income-actual or 20% of gross rent	[19]	
[23] Pension contributions made by taxpayer on own behalf	[20]	
[24] Expenses related to income from intangible property	[21]	
[25] Other allowed expenses (Specify)	[22]	
[26] Total Allowed Expenses (add 21 to 25)	[23]	
[27] Taxable amount (20-26)- if negative enter the amount in brackets	[24]	

Deductions

[28] Losses Carried Forward		[35]
[29] Deduction for Charitable Contributions (max 5% of [27]) (Only for taxpayers who pay tax on real income)	[36]	

[30] Total Deductions (28+29)	[37]
[31] Taxable Income before tax [27]-[30](if negative enter in brackets)	[38]
[32] Tax on Taxable Income as per tax brackets (if negative enter 0)	[39]

Tax Paid and/or withheld during the year

[33] Quarterly advance payments on business income	
[34] Quarterly advance payments on rental income and intangible property	[41]
[35] Tax on wages withheld by employers	[42]
[36] Tax on interests withheld by banks (attach certificates)	
[37] Tax on dividends withheld by companies (attach certificates)	
[38] Tax Withheld on rents by non-individual tenants (attach certificates)	
[39] Tax Withheld on lottery gains (attach certificates)	
[40] Foreign Tax Credit (attach certificates)	
[41] Total Tax Paid or Withheld (add 33 to 40)	
[42] Total Tax Payable [42]=[32]-[41]	

If the result on line 42 is (+) you have an Amount Due. If the result on line 42 is (-) you have a Refund. Enter the amount in the appropriate box.

[43] Amount Due

[44] Refund

[45] Bank Name

[46] Account Holder

[47] Account Number

I declare that facts reported in this tax declaration are true.
Dd/mm/yyyy

(_____)

____.____.____

BOGA & ASSOCIATES SERVICES AT A GLANCE

Boga & Associates, established in 1994, has emerged as one of the premier law firms in Albania, earning a reputation for providing the highest quality of legal, tax and accounting services to its clients. Boga & Associates also operates in Kosovo (Pristina) offering a full range of services. Until May 2007, the firm was a member firm of KPMG International and the Senior Partner/Managing Partner, Mr. Genc Boga, was also the Managing Partner of KPMG Albania.

Our firm's particularity is linked to the multidisciplinary services it provides to its clients.

Apart from the wide consolidated legal practice, the firm offers also a significant expertise in tax and accounting services with a keen sensitivity to the rapid changes in the Albanian and Kosovo business environment.

The firm maintains its commitment to quality through the skills and determination of a team of attorneys and other professionals with a wide range of skills and experience.

The extensive foreign language skills of the team help to ensure that its international clientele have easy access to the expanding Albanian and Kosovo business environment.

With its diverse capabilities and experience, the firm acts for leading businesses in most major industries, including banks and financial institutions, as well as companies working in the insurance, construction, energy and utilities, entertainment and media, mining, oil and gas, professional services, real estate, technology, telecommunications, tourism, transport, infrastructure and consumer goods sectors. The firm also enjoys an outstanding litigation practice, representing clients before all levels of the Albanian judicial system. Moreover, the Albanian parliament has drawn on the firm's know-how and experience to help with the drafting of new laws and regulations.

The firm offers its clients every legal, tax and accounting service they may require to do business in Albania and Kosovo. Over the years, the firm has advised on privatization transactions, concessions, real estate transactions, setting up businesses, credit facilities and customs and tax issues, all with a keen sensitivity to developments in the Albanian business environment.

Boga & Associates aims to provide a 'one stop shop' for the best legal, tax and accounting advice in Albania and Kosovo, and in particular offers:

- an experienced, professional team;
- a culture that continually measures and demands improvements in the quality of services we offer;
- a structure that is market facing, self-reliant, independent and accountable;
- a pragmatic, constructive and proactive attitude;
- an integrated service ensuring we listen to client's needs and act accordingly;
- a continuously open channel of communication with client's management.

EXPERTISE

Legal

- Commercial Law
- Intellectual Property Law
- Banking and Finance Law
- Competition Law
- Energy and Utilities Law
- Construction Law
- Employment Law
- Electronic Communication and Entertainment Law
- Environmental Law
- Litigation and Alternative Dispute Resolution
- Procurement Law
- Projects
- Real Estate Law

Tax

- Tax Advice
- Tax Audit Services
- Tax Compliance

Accounting

- Bookkeeping Services
- Accounting Advice
- Forensic Services

ACHIEVEMENTS OF BOGA & ASSOCIATES



IF LR 1000, Top Tier Firm 2014

- Corporate
- Financial



Chambers Global, Top Ranked 2014

- General Business Law
- Leading Individuals



Chambers Europe, Top Ranked 2014

- Corporate/Commercial
- Dispute Resolution
- Intellectual Property
- Projects
- Real Estate



Corporate INTL, Global Awards 2014

- Business Law Firm in Albania
- Full Service Law Firm in Albania
- IP Law Firm in Albania
- Commercial Law Firm in Albania
- Trademark Law Firm in Albania
- Labour Law Firm in Albania



Corporate INTL, Legal Awards 2013

- Full Service Law in Albania
- Commercial Law in Albania
- Banking & Finance in Kosovo
- Employment Law in Albania
- Dispute Resolution Advisory in Albania
- Immigration in Albania
- Tax Law in Albania



Global Legal Expert (GLE) 2013

- Full Service Law Firm in Albania
- Banking and Finance in Kosovo
- Commercial Law in Kosovo

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