Guide to Doing Business and Investing in Macedonia

2008 Edition

Investing in Macedonia - Highlights

In spite of its small size and modest domestic market, the Republic of Macedonia presents a number of truly remarkable advantages for potential investors:

- Macedonia benefits from a strategic geographical position at the crossroads of 2 main European transport corridors;
- Macedonia has developed a highly-liberalised foreign trade policy and has signed various bilateral agreements that give local producers a free access to the European Union and other markets, making Macedonia a highly-competitive production and export platform;
- Macedonia offers a stable monetary environment with the lowest inflation rates in the region and a stable currency;
- Investors in Macedonia benefit from a very favourable tax environment with one of the lowest corporate income tax rate in the world; in addition, Macedonia has several Investment Zones with 10 years tax holidays for corporate profits, value added tax, custom duties and others;
- Macedonia has a highly-qualified workforce and one of the most competitive labour cost in Europe;
- Macedonia applies the highest standards in its corporate reporting and corporate governance and it already applies European Union standards on public procurement, competition, State aid, OECD Corporate Governance principles, product standards and many other areas.

Guide to Doing Business and Investing in Macedonia

This guide is intended to assist PricewaterhouseCoopers' clients and other parties interested in doing business in Macedonia. It does not exhaustively cover the subject, but is intended as a synopsis of some of the important initial issues of concern to those planning to do business in Macedonia.

The information in this book is based on taxation law, legislative proposals and current practice, up to and including measures passed into law as of February 2008. It is intended to provide a general guide only on the subject matter and is necessarily in a condensed form. It should not be regarded as a basis for ascertaining the tax liability in specific circumstances. Professional advice should always be taken before acting on any information in the booklet.

Please note that, for simplification purpose, the terms "Macedonia" is used in this document to refer to the Republic of Macedonia.

Contents

Partner letter

Welcome to the fifth publication in the series "Guide to doing business and investing in Macedonia"

Emmanuel Koenig
Country Managing Partner

Macedonia is at a turning point of its economic development. The country has only lately opened itself to foreign investment but the past months have seen an unprecedented level of interest from investors for the country. The next few years will be critical for Macedonia to confirm its place as new and dynamic business and investment destination.

There are various factors which make this country different from others in Europe and these differences create advantages and opportunities for business.

The announcement of EU candidature in December 2005 and the possibility for Macedonia of joining NATO in 2008 have strengthened the country's international credibility. The country's international communication campaign has boosted its visibility. The priority given by the new Government to the economic development has materialised into a range of generous tax incentives and a generally improved business climate.

In this changing environment, the Doing business and investing in Macedonia 2008 publication aims at providing comprehensive and up-to-date information on conducting business in Macedonia. This includes commentary on the latest legal developments, audit and accounting changes, major tax and investment incentives and general economic and business conditions.

The Guide to doing business and investing in Macedonia 2008 publication will be of valuable assistance to domestic and foreign investors or potential investors alike, regardless of the type, size and character of the investment.

The publication highlights many of the principal features of the accounting, tax, legal and general business regulatory environment that interfaces local issues with those of the global business world.

Lastly, this publication incorporates and promotes the principles adhered to in the policies of ongoing governments towards the development of the economy of the Republic of Macedonia.

Transparency

The principle of Transparency is recognized by ongoing governments as a vital feature in promoting a clearer understanding for locals and foreigners alike of government procedures. This applies across all areas of decision-making including taxation, customs and other areas of policy-making.

Trust

The principle of Trust underscores the desire of governments and regulatory authorities to establish long-standing and supportive relationships with the domestic and foreign investment community. The country's EU candidate status is a powerful endorsement of Trust between Macedonia and the international community.

Diligence and Professionalism

In a small open economy the principles of Diligence and Professionalism are paramount in achieving high standards of work performance and essential in achieving high economic growth and prosperity.

PwC in Macedonia

The largest provider of professional services with over 50 highly-qualified and experienced staff, PwC Macedonia can assist in your business plans from commencement of operations to expansion of business to multi-sector trading and investment enterprises. We hope to be of service to you during this exciting period of new opportunities in Macedonia.

Office location in Macedonia

12 Marshal Tito Street
Palata Makedonija IV floor
1000 Skopje
Republic of Macedonia

Telephone: +389 (02) 3111 012
+389 (02) 3110 623
Fax number: +389 (02) 3116 525

1 Macedonia - A Profile

1.1 Introduction

Geography and climate

The Republic of Macedonia is located in the central Balkans and shares common borders with the following countries: Albania to the West - 151 km, Bulgaria to the East - 148 km, Greece to the South - 246 km and Serbia to the North - 221 km.

Macedonia falls within in the Central European Time zone (GMT + 1).

The country covers an area of 25,713 sq km (slightly smaller than Belgium). Its terrain is mostly mountainous and traversed by the Vardar river.

Main cities in Macedonia are;

- Skopje - 506,000 inhabitants;
- Kumanovo - 105,000 inhabitants
- Bitola - 95,000 inhabitants
- Tetovo - 86,000 inhabitants
- Gostivar 81.000 inhabitants
- Ohrid - 56.000 inhabitants
- Veles - 55,000 inhabitants

The climate is a Mediterranean-Continental mix. Along the Vardar and Strumica river valleys, the climate is temperate Mediterranean. Inland, the climate is generally Continental with hot-dry summers and cold-wet winters.

History

Due to its location, at the crossroads of various empires, Macedonia's history can be characterized as 'tumultuous'. The name, history and territory of what is now the Republic of Macedonia have been through the history the object of claims from neighbouring countries, some still unsolved.

Ancient Macedonia is marked by the rule of Alexander the Great (356-323 BC), whose empire extended from Europe to Egypt and India. In the second century BC Macedonia became a province of the Roman Empire. Following the East - West split of the Roman Empire in 395 AD, Macedonia became a territory within the Eastern Roman Empire.

At the end of the seventh century, Macedonia was mainly settled by Slavonic peoples and fell under the control of the Byzantine and Bulgarian Empires. The first Macedonian state, according to local scholars, was briefly established at the end of the 10th century.

However, following this brief period as an independent state, Macedonia reverted back into a province of the Byzantine and Bulgarian Empires up to the end of the 14th century. Subsequently, it fell under Ottoman rule which lasted until the early-20th century.

Following the collapse of the Ottoman Empire and two Balkan Wars (1912-1913), the political geography of the Balkans was radically altered. Under the terms of the 1913 Treaty of Bucharest, Macedonia was partitioned between Greece, Bulgaria and Serbia. Under the Treaty of Versailles, at the end of World War I, Macedonia constituted a part of the Kingdom of Serbs, Croats and Slovenes that later became the state of Yugoslavia.

During the Second World War Yugoslavia was partitioned by the Axis powers. This resulted in the occupation of Macedonia by Bulgarian and Italian forces. Macedonian partisans joined the All-Yugoslav Partisan Army, led by Josip Broz Tito, and in 1944 they took part in the liberation of the country from foreign occupying forces.

The first session of the Anti-Fascist Assembly of the National Liberation of Macedonia was held in August 1944 as a constitutional foundation for an independent Macedonian state. At the end of the war, Macedonia became a republic within the Socialist Federal Republic of Yugoslavia.

Yugoslavia's unique political and economic system, along with its geo-political position, enabled it to achieve a standard of living and degree of political and cultural freedom not experienced by other Eastern European countries during the Communist period. As a result, Macedonia underwent large-scale economic development and transformation post-WWII.

In the 80's and early-1990s, increased political freedom and growing tensions between the different ethnical components in Yugoslavia hastened the end of the multi-republic state. Each of the former Yugoslav republics looked to form independent states.

Macedonia is the only former republic to gain independence from the state of Yugoslavia without giving rise to any conflict. Under a referendum on its sovereignty, Macedonia declared independence on September 8th, 1991. In November 1991, Macedonia's Parliament issued a new constitution, and in 1993, the country became a member state of the United Nations assuming the temporary title of "the Former Yugoslav Republic of Macedonia" (FYROM).

The turbulent period, in the wake of the break-up of the former Yugoslavia, was marked by war and economic turmoil throughout the region which inevitably impacted the Macedonian economy. The conflict in Kosovo, in 1999, contributed to an influx of an estimated 300,000 ethnic Albanian refugees into Macedonia. In turn, this situation contributed to civil unrest, in 2001, by the ethnic-Albanian communities in the north and north-western parts of the country.

On August 13th, 2001, Macedonian and Albanian representatives jointly signed a peace agreement known as the Ohrid Framework Agreement (OFA). In November 2001, the Macedonian Parliament approved a series of constitutional amendments strengthening minority rights in the country.

International relations

In addition to its membership of the United Nations, since 1993, the country was admitted to the Council of Europe in September 1995. In November 1995, Macedonia joined NATO's Partnership of Peace programme.
In January 1996, full diplomatic relations were established with the European Union and, in 2001, it concluded the Stabilisation and Association Agreement with the EU.

Macedonia became a member of the World Trade Organisation in 2003 and has been a member of the World Bank and the International Development Association since 1993.

The country is also a member of: CEI, EBRD, FAO, IAEA, IBRD, IFC, IMF, Interpol, IOC, IOM (observer), ISO, OSCE, UNCTAD, UNESCO, WHO, and many other international organisations.

The most significant recent political event was the announcement of Macedonia's EU candidate status in December 2005.

There are as well hopes that Macedonia will become a full NATO member in 2008.

Towards EU integration

The Republic of Macedonia has been eligible for the EU's Phare programs since 1996.

From 1997, the Republic of Macedonia and the European Union were signatories to various cooperation agreements. In April 2001, the Stabilisation and Association Agreement, between Macedonia and the EU was signed in Luxembourg. This agreement entered into force on 1 April 2004, thereby, taking the country another step forward on the road to European integration.

The Republic of Macedonia applied to become an official EU candidate state on March 22, 2004. On November 9, 2005 the European Commission recommended that the Republic of Macedonia become a candidate state.

On December 17th, the European Council rewarded the country's achievements in implementing various reforms and agreements (e.g. the implementation of the "Copenhagen criteria", the Stabilisation and Association process, the Stabilisation and Association Agreement, and the Ohrid Agreement) by its official recognition as an EU candidate state.

In December 2005, Macedonia officially became an EU candidate state - the final step before full EU accession.

1.2 Government structure

In accordance with the constitution, adopted on November 17, 1991, the state of Macedonia was established as a sovereign republic. The head of state is the President of the Republic who is directly-elected, by secret ballot, for a maximum of two five-year terms.

The legislative body is the Parliament of Macedonia which consists of a single-chamber National Assembly of 120 Deputies. All Deputies serve a four-year term. After the most recent elections in 2006, 15 parties were represented in the National Assembly.

Executive authority rests with the government, which is headed by the Prime Minister. The Prime Minister and cabinet ministers are elected by the National Assembly. Ministers are elected by a majority vote of deputies in the National Assembly.

1.3 Legal system

The Macedonian legal system is based on a civil law system. The judiciary is constituted of the Supreme Court, the Constitutional Court and the Republican Judicial Council. Parliament appoints judges to serve on each of these courts. According to the latest legal changes in 2007, the Administrative Court, was introduced to decide upon appeals on the decisions or acts of the state administration. The Judicial Council of Macedonia appoints judges in all courts.

1.4 People

Population: 2.02 million (latest census in 2002)

Ethnic groups:
Macedonian 65%,
Albanian 25%,
Turkish 4%,
Gypsies 3%
Others 3%

Languages:
The constitutional and most widely spoken language is Macedonian, a language of the south-Slavic language group (more precisely of the eastern sub-group, together with Bulgarian). Albanian is also an official communication language in some parts of the country.

There is a range of other languages spoken in the Macedonia, reflecting the country's ethnic diversity, of which Turkish, Romani, Vlach, Greek…

Religions:
Macedonian Orthodox 67%,
Muslim 30%,
Others 3%

GDP per capita:
2003 - USD 2,279
2004 - USD 2,638
2005 - USD 3,120
2006 - USD 3,709

1.5 Economy

General description

In the first few years after independence, the Macedonian economy suffered the loss of a large and protected market resulting in steep falls in GDP. This led to a period of economic decline with high inflation, large fiscal deficits, and almost no foreign investment.

At the end of 1994, the Government initiated and successfully implemented a stabilization program, with the assistance of financial institutions and international donors including the World Bank and the International Monetary Fund. As a result, by the end of 2000 macroeconomic stability was established, the fiscal balance registered a substantial surplus for the first time, and inflation remained modest.
Positive economic trends at the close of 2000 came to an abrupt end with the conflict of 2001. GDP declined by more than 4 percent, the fiscal balance and the balance of payments deteriorated severely, and reforms were stalled.

Industrial production restarted its growth in 2002 and, after 4 years of consistent growth, it is currently above its pre-conflict levels. Growth level of 4% was achieved in 2006 to reach a GDP level of close to EUR5 billion and the estimate for 2007 is 5.1%.

Despite the growth and substantial foreign trade deficits, the inflation rate has constantly remained below 3% per year, while the EUR / Denar exchange rate has been almost unchanged over the last 10 years.

Two issues remain however increasingly worrying:

- The growth has so far not beneficiated to the employment situation. The unemployment rate that was historically high remains above 30% (although it is widely thought that the actual proportion of unemployed is lower due to the importance of the informal economy);
- Trade balance deficit has been consistently growing.

The current government's policy is thus focused on the improvement of the above issues through:

- The creation of new jobs, and;
- The promotion of investment, especially in export-oriented industries.

Foreign Investment

Foreign Direct Investment (FDI) was negligible pre-1998 (e.g. registering less than EUR10 million in 1995). Since then, FDI has been steadily growing. It reached a peak of about EUR400 million in 2001. This was largely attributable to acquisitions, by foreign investors, of major companies and banks during the privatisation process. The largest acquisition was that of the national telecom operator by Magyar Telekom.

A sharp fall in FDI occurred as a result of the crisis in 2001. Since that period, foreign investment has registered less than EUR100 million in both 2002 and 2003. However, following various efforts towards achieving economic and political stabilization, FDI has been on an uptrend since 2004. The years 2006 and 2007 have seen a significant new wave of investment mainly arising from privatisations in the energy sector, and certain green-field investments in Macedonia's free economic zones.

Privatisation

Privatisations of State owned enterprises have been performed quickly and almost completely in the 90's, mostly through sales to the management and employees of the companies. Out of about 2000 State owned enterprises, less than 60 are still currently not privatised.
The Macedonian government has now engaged upon a final process of privatisation / concession of the public sector. After the successful privatisation of the telecommunications industry and partial privatisation of the energy sector (the national electricity distributor having been sold to EVN from Austria), the Government now has ambitious plans to restructure and further privatise further the remaining publicly-held energy, transport and health sectors.

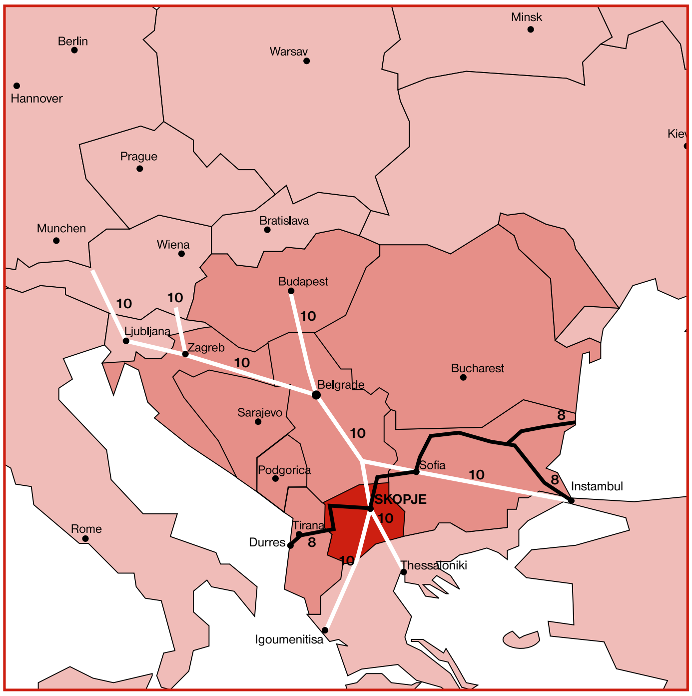
Summary of macro-economic figures

	2003	2004	2005	2006	2007 Estimate
GDP growth (yearly real growth rate %)	2.8	4.1	4.1	4.0	5.1
GDP per capita (in US$)	2,279	2,638	2,850	3,120	3,709
Unemployment rate (end-year)	36,7	37,2	37,3	36,0	34.8
Consumer prices (yearly change %)	1.2	-0.4	0.5	3.2	2.3
General government balance (% of GDP)*	-1.0	-0.8	0.2	-0.5	0.6
Trade balance (million EUR)	-753	-914	-858	-1,020	-1,173
Merchandise exports	1,203	1,345	1,643	1,903	2,441
Merchandise imports	-1,956	-2,259	-2,501	-2,923	-3,614
Gross external debt/GDP (in per cent)	na	47.9	53.9	49.4	na
Interbank interest rate (% per annum)	6.5	7.9	8.7	4.9	3.1

**2003 and 2004, Central government balance.*
Source: National Bank and State Statistical Office of the Republic of Macedonia

Transport

Although a landlocked country, Macedonia benefits from a strategic geographical position at the crossroads of two major pan-European transportations corridors (corridors VIII and X) linking Central Europe to the Adriatic, Aegean and Black Sea.



The several countries bordering Macedonia provide an actual and potential consumer market of about 30 million people. As a whole, South Eastern Europe is a market of over 80 million persons.

Macedonia has an extensive network of paved highways and secondary roads. A legacy from Yugoslavian period, the road network is generally of better quality than in most of Eastern European countries. A major highway parallels the railroad along the North-South corridor. Plans are also underway to upgrade the existing roads connecting Macedonia with Albania and Bulgaria (Corridor No. VIII).

The railway network extends over 900 km. The principal North-South rail connection from Belgrade to the port of Thessalonica (Aegean Sea) passes through Skopje. Both network and rolling stock are in need for investment. The rail system is still State owned but in 2007 the railways company has been split into two separate entities (infrastructure and rolling stock) as a preparatory step for privatisation.

Macedonia has two international airports, in Skopje and Ohrid. The current air traffic is modest, with about 600,000 passengers using the country's airports in 2007. The Government has launched a reform programme with the objective of introducing a private partner and upgrading operation standards and capacity.

Telecommunications

The country has a well-developed fixed communications network with a tele-density of over 30 lines per 100 inhabitants, within the region average. The former state monopoly - Makedonski Telekomunikacii was privatised in 2001: Magyar Telekom (Deutsche Telekom Group) now holds a majority stake in the company, while the State remains a minority shareholder. Three mobile operators are active on the market: T-Mobile Macedonia, (a subsidiary of Makedonski Telekomunikacii) and Cosmofon (a member of the Greek owned OTE group) joined in 2007 by VIP (a subsidiary of Mobilkom Austria). The mobile networks cover up to 99% of the population. The mobile penetration rate exceeds 70% of the population, and continues growing steadily.

The full liberalisation of the telecommunications sector is on-going and international fixed line operators, competing with the incumbent operator, have entered the market since 2006 (Onnet, Nextel and Ultra).

A large range of data communication solutions are available. The country has one of the highest rates of internet usage in the region, with nearly one third of the population connecting regularly to the Internet according to a USAID study from May 2006.

Macedonia recognizes the importance of the "digital economy" and several steps have been taken in this direction. Legislation, in the shape of the Law on Data in Electronic Form and Electronic Signature and Bylaws has been in place since 2001, whereby all necessary laws have been modified to enable and validate the use of an electronic signature. At the same time, steps have been taken for establishing the first Certification Authority (CA) for the purposes of the Government, private persons and companies.

Energy

Macedonia is striving to become self-sufficient in electrical energy. The total annual generation of electricity amounts to about 6,100GWh, mostly from thermal and hydroelectric sources, covering about 65% of domestic energy needs.

In line with European policies, the State Electricity Utility has been recently restructured into 4 independent units: two for generation, one for transmission and one for distribution of electricity. The distribution company has subsequently been privatised in 2006 and 90% of the shares sold to EVN (Austria).

The generation capacities are still mostly State-owned. They include four coal-fired power plants with an installed capacity of about 800MW and over 20 small and medium hydro-power plants with an installed capacity of above 500MW. The 210MW oil-powered Negotino plant is used only during peak periods and cold reserve. An attempt was made to privatise it in 2007, but the procedure has been cancelled.
There are a number of new generation projects on-going, most of them aimed at tackling the country vast hydro-energetic potential. They include, among other:

- the two large (over 500MW altogether) hydro-power plants at Cebren & Galiste;
- large number of small and medium hydro facilities;
- a combined cycle gas power and heating plant in the suburb of Skopje.

The country imports all its oil and gas needs. A pipeline brings oil from Thessaloniki to the country's only refinery, OKTA, which is owned by Hellenic Petroleum. A natural gas pipeline brings Russian gas from the Bulgarian border to Skopje and the gas distribution network is in development.

1.6 Foreign trade

In the recent years, Macedonia has strived to achieve a high level of foreign trade liberalisation.

In part, this has been achieved as a result of the following:

- Membership of the World Trade Organization since 2003;
- Member of CEFTA - Free Trade Agreements with Albania, Bosnia and Herzegovina, Serbia and Montenegro, , Croatia,
- Free trade agreement with Turkey and Ukraine and with the European Free Trade Association countries;
- Stabilization and Association Agreement with the EU in April 2001, giving Macedonia duty-free access to European markets for the majority of the goods (for some goods, full liberalization will be implemented gradually over a period of ten years).

As a WTO member, Macedonia has committed itself to the three basic rules of trade conduct: transparency in laws, equal rights and privileges for foreign and domestic firms and citizens, and most-favoured nation treatment.

The Law on Customs Tariff (Official Gazette of RM No. 148/07) is fully-harmonized with customs systems introduced by the World Customs Organization and the Combined Nomenclature of the European Union.

Nonetheless, restrictions still exist in relation to:

- export licenses for environment protection, protection of human health, protection of animals and plants, protection of historical heritage, trade in military hardware; and
- measures for the protection of domestic production from significant increases in imported goods, anti-dumping measures, and measures against subsidized import prices.

About 98% of goods are not subject to trade restrictions. The un-weighted average customs duty, for agricultural and industrial products in 2007, was below 7%

After several years of stagnation, foreign trade re-started growing in 2004. Total trade (import + export) in 2007 was over USD 8,5 billion. The trade balance remains largely negative, however, suffering a record deficit above USD1.8 billion in 2007.

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2 Business Environment

2.1 Business climate

Over the past years, the various governments have successfully reduced the fiscal deficits and they have focused on maintaining a low inflation rate, a stable Denar exchange rate and low interest rates.

Although the above has enabled the development of a stable macro-economic environment, the country has not been as successful in re-starting its economic growth. Although positive, the growth rates recorded during the last years are still behind expectations and lower than those of the region's most dynamic countries.

The government's future stated objectives will be to support the growth of domestic consumption, industrial output and create a favourable environment for foreign and domestic investment. . To achieve this the government has already implemented, and is still developing, a number of measures, including:

- Further public sector reform including the introduction of private sector investment in the public services and infrastructure sectors;
- Continuation of trade liberalisation policies;
- Measures aimed at enabling easier access to financing;
- Implementation of tax incentives through the creation of tax-free zones and a general reduction in the overall tax burden.

2.2 Technology and Industrial Zones

Investors in technology and industrial zones benefit can from tax holidays for up to 10 years for corporate profits, value added tax, custom duties and others

The new Law on Tehnological Industrial Development Zones, enacted in 2007 (Official Gazette of RM No. 14/07), defines a Technological Industrial Development Zone (TIDZ) as a part of the territory of the Republic of Macedonia. The zones facilitate economic activities to be performed under special conditions providing tax and other incentives for zone users.

The aim of the TIDZ is to support the development of high modern technologies through an application of the highest environmental standards. The establishment, development and monitoring of the zones is carried out by the Directorate for Technological Industrial Development Zones.

The first TIDZ - "Skopje/Bunardzik" - covers an area of about 150 ha (with an additional 100 ha in development) and is located 10 km east of Skopje, on the Skopje-Kumanovo highway (E75), and 3 km from Skopje international airport. The American automotive components producer, Johnson Controls, recently launched the first significant investment in the zone with the production of electronic car components starting at the end of 2007. Another car component manufacturer, Johnson Matthey, from the UK, also recently announced an investment in the TIDZ of Ř43 million.

Other TIDZ are planned to be opened in the future in Skopje and other cities including Tetovo and Stip. Most production and services activities can be performed in the TIDZ with exceptions for activities involving polluting or dangerous goods and certain chemicals and specific activities.

The tax exemptions and incentives available in the TIDZ include:

I) VAT exemption on products imported into the TIDZ and intended for export, thereby excluding goods intended for final consumption;

II) VAT exemption on services provided in the TIDZ (for services that are directly related to import of products that are entering the zone thereby excluding goods intended for final consumption)

III) Corporate income exemption for a period of ten years from the day of commencement of activities in the TIDZ;

IV) Exemption from taxes on ownership transfers between the developers and the users in the TIDZ; and

V) Exemption from taxes and other duties related to the utilization of construction land, connections to water, sewerage, heating, gas and the power supply networks.

VI) Reduction of personal income tax for to 50% of employment income earned within the TIDZ, in the first 5 years.

Any TIDZ user that reinvests profits in the capital assets of the TIDZ is entitled to reduce the profit tax base for the amounts invested in capital assets, after the expiry of a period of 10 years and 1 day following the commencement of the activities.

The TIDZ may be leased to foreign investors for a period of fifty years, with a possibility of extension for another twenty-five years.

2.3 Regulatory environment

Investor considerations

Macedonia's national currency, the Denar (MKD), while fully convertible within the domestic market, is not convertible on foreign exchange markets. Conversion of most foreign currencies is possible on the official foreign exchange market. In addition to banks and savings institutions, numerous authorized exchange offices also provide exchange services.
The official exchange rate is freely determined by the market. The National Bank of the Republic of Macedonia operates in the foreign exchange market, but participates on an equal basis with other entities.

In accordance with the regulations, all banks have limits regarding their open foreign exchange position, and they are also required to maintain foreign currency reserve requirement on their forex deposits. There are no restrictions on the purchase of foreign currency. Parallel foreign exchange markets do not exist in Macedonia. The long-term stability of the domestic currency has eliminated such practice. The strategy of the National Bank is to maintain a stable exchange rate by pegging the Denar to the Euro, thereby maintaining low inflation.

The Constitution of Macedonia guarantees the free transfer and repatriation of investment capital and profits. By law, foreign investors are entitled to transfer profits and income, subject to having registered their direct investments and paid all legal obligations relating to taxes and social insurance contributions..

Regulation of business

The Company Law

The New Company Law became effective on May 8th, 2004. In 2007, this law was amended to introduce the Central Register as the body authorised to perform all company registrations. This is the primary law regulating business activity in Macedonia. It defines the types of companies, procedures and regulations for their establishment and operations.
As all foreign investors are granted the same rights and privileges as Macedonian nationals, they are entitled to establish and operate all types of self-owned private companies or joint-stock companies. Foreign investors are not required to obtain special permission from state-authorized institutions, other than what is customarily required by law.

Under the Company Law, trade companies are formed as separate legal entities that operate independently and are distinct from their founders, shareholders and managers. Depending on the type, trade companies have their own rights, liabilities, names and registered offices. The law defines five forms of trade companies: public trade (general partnership), limited partnership, Limited Liability Company, Joint Stock Company and limited partnership by shares.

The legal framework includes the One stop shop system that aims at tackling some of the administrative barriers for entry into the business life in Macedonia. According to the Law on the One stop shop system, which was introduced in 2006, and updated in December 2007, all types of trade companies are registered within 4 hours of submission. In a second phase, starting from July 1st 2008, all legal entities will as well be given a unique electronic certificate that will allow them to communicate online with all the governmental institutions.
Another important feature of the One Stop Shop is the electronic distribution service that allows any potential investor or third party to obtain complete electronic information about the operations of companies in the country.

Law on Investment Funds

This law governs the conditions for the incorporation of investment funds and investment fund management companies. It also regulates the manner in which a company operates and exercises supervisory control of these operations and the process of the selection of a depository bank. The law does not discriminate against foreign investors in the establishment of open-ended or closed investment funds.

Right to Private Ownership and Establishment

In accordance with the Constitution of Macedonia, the investor's right to property is guaranteed. Foreign investors may acquire property rights for buildings and rights for other immovable assets to be used for their business activities. They may acquire residential property, but not ownership rights over construction land. Foreign investors are only permitted to have land-use rights, not land ownership rights. Ownership of property requires the preservation of specific rights that serve both the individual and the community. For example, no person may be deprived of his/her property or the rights deriving from it, unless the use of that property affects the general welfare of the public. If the property is expropriated or restricted, rightful compensation of its market value is guaranteed. If the foreign company registers a local company according to Macedonian law, it can acquire land with full ownership rights similar to a domestic company.

Competition

A new law on the enhancement of competition came into effect in 2005 and amended in 2007. In practice, certain publicly-held enterprises still enjoy special privileges vis-ą-vis their private counterparts. It remains an ongoing area of concern for the country's judicial system which will be required to comply with competition rules under the European Union's Acquis Communautaire.

Price controls

Price controls have remained mainly in the energy sector and communal utilities sector. Prices in the energy sector (oil derivatives, electricity, heating) as well as prices of telecommunication services (only for fixed phone lines), are controlled by independent regulatory bodies

Monopolies and antitrust

The Law against Unfair Competition (LAUC) was enacted in 1999 by the Parliament of the Republic of Macedonia. On April 1st, 2000, the Commission for Protection of Competition (CPC) was established and now functions as an independent institution. This LAUC, which is chaired by the President of the Republic of Macedonia, is responsible for the CPC's implementation. The German Act against Restraints on Competition (ARC) was used as a base model for drafting the LAUC. This law guarantees the protection of free market competition, in cases where competition is distorted by one of the following restrictive practices:

- Through collusive agreements;
- Through the abuse of a dominant position in the market;
- Through merger agreements among companies that lead to the creation of a dominant position or the strengthening of existing dominant positions.

Securities markets

Macedonia's securities markets are limited in turnover and capitalization. The establishment of the Macedonian Stock Exchange in 1995 made it possible for portfolio investments to be regulated. On March 28, 1996, the commencement of trading operations created a central market place for securities trading. This was also the first organized stock exchange in the history of the country.

While activity on the stock market is limited, it does offer a vehicle through which foreign investors can move into the area.
The Securities and Exchange Commission adopted legislation that regulates Macedonia's securities market.

The Macedonian Stock Exchange is made up of the First Market (the Official Market which consists of two sub-segments: the Super Listing and Exchange Listing segments), with various listed companies, and the Unofficial Market. The latter also consists of two sub segments a Market for Publicly-Owned Companies (Large Non-Listed Companies and the Free Market.

The Central Securities Depository (CSD) was established on 31st December, 2001. The CSD records the existence of an ownership of shares and associated transactions. The CSD has greatly improved the efficiency of the capital markets and the rights of minority shareholders in companies. All joint stock companies have transferred their shareholding books to the CSD.

In addition to the government-issued bonds for frozen foreign currency deposits and denationalisation, the Ministry of finance has started issuing, since 2004, treasury bills and treasury bonds with maturities ranging from three months to there years.

Protection of property rights

The Industrial Property Law was enacted in 2002. This law governs the acquisition of intellectual property. The Institute for Industrial Property governs registration of patents, industrial designs, trademarks, geographic and origin designations and topography of integrated circuits.
The protection of author's rights, software, CD and other intellectual property is administered by the Inspection Service within the Ministry of Culture, established in 1999.

Since 1993, Macedonia has been a member of the World Intellectual Property Organization (WIPO), and in 1994, it became a member of the Permanent Committee of Industrial Property Protection Information of WIPO. As a successor to the former Socialist Federal Republic of Yugoslavia, Macedonia has adhered to international conventions and agreements that govern these rights.

Macedonia's accession to the WTO in April 2003 underscored the urgent need for the country to prevent copyright infringement. The first step in this direction was taken in 2002 when the Government of Macedonia reached an agreement with Microsoft to legalize all the Government's software.

Joint action taken by the Inspectors from the Ministry of Culture and Interior has shown some visible results in combating piracy in the production and sale of items, such as CDs, DVD movies and software.

3 Foreign investment

3.1 Investment policy

As a small, albeit open economy, Macedonia continues to take steps to attract foreign direct investment (FDI). The country has enacted legislation that not only ensures an equal footing for foreign investors vis-ą-vis their domestic counterparts, but also provides numerous incentives to attract such investment. The country currently has two Ministers and an agency dedicated to attracting and assisting foreign investors. The country has also concluded a number of bilateral investment protection treaties and other multilateral conventions that impose stricter protection standards for foreign investors.

The Constitution stipulates that a foreign person in the Republic of Macedonia may acquire property rights under conditions set by law. Furthermore, the Constitution guarantees a foreign investor the right to the free transfer of invested capital and profits. A foreign person may establish the same types of companies as a national of the Republic of Macedonia. A foreign investor may also be an individual business person.

There is no single law regulating foreign investment. Rather, the legal framework applicable to foreign investors is made up of various laws, including: the Trading Company Law, Securities Law, Profit Tax Law, Personal Income Tax Law, Law on Value Added Tax, Foreign Trade Law, Law on Takeovers, Law on Foreign Exchange, Law on Investment Funds, Banking Law, Law on Supervision of Insurance, Audit Law etc…

In general, there are no restrictions governing the participation of foreign capital in the banking sector. Under the Law on Banks, acquisitions of up to 75% of a bank's shares are subject to the consent of the National Bank of Macedonia. Ongoing changes to the Law are expected to further encourage foreign capital into the Macedonian banking sector, through improving both corporate governance and financial performance.

The Law on the Supervision of Insurance requires that foreign investors obtain the approval of the Agency for Insurance Supervision in respect of any purchase of shares conferring the right to manage an insurance undertaking.

The Constitution of Macedonia guarantees equal treatment for all market participants and the right for foreign investors to freely transfer and repatriate investment capital and profits

3.2 Investment incentives

Tax incentives

The range of incentives in Macedonia include exemption from customs duties, various tax holidays and numerous specific tax relief measures.

The taxpayer shall be approved a reduced tax base for the amount of reinvested profits, for new investments in the Republic of Macedonia in: tangible assets (real estate, facilities and equipment) and intangible assets (computer software and patents), for expansion of the activities, except for investments in cars, furniture, carpets, audio-visual devices, appliances, pieces of figurative and applied art and other decorative object used to equip administrative premises;

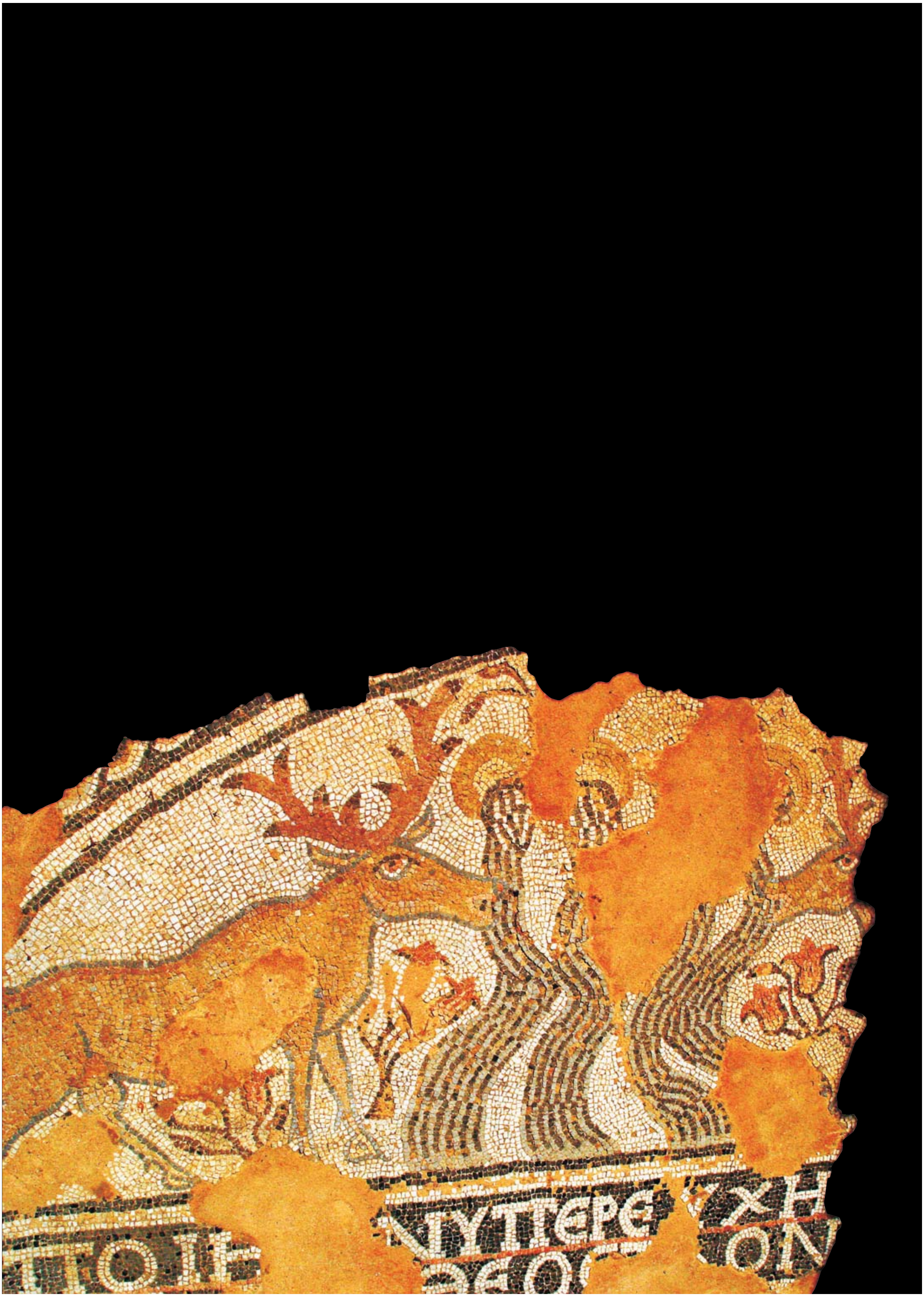
The low corporate income tax rate of 10% should also be a favourable incentive for the establishment of operations by foreign investors.

A foreign person may establish the same types of companies as a national of the Republic of Macedonia.

Investment Protection and Trade Agreements

Up to 30 bilateral Investment Protection Agreements have been signed, 13 of which are with members of the Organization for Economic Cooperation and Development (OECD). Among those who have signed such agreements are: Austria; Albania; Belgium; Byelorussia; Bosnia; Bulgaria; China; Croatia; the Czech Republic; Egypt; Finland; France; Germany; Hungary; Iran; Italy; Korea ; Malaysia; The Netherlands; Poland; Kuwait; Romania; The Russian Federation; Serbia and Montenegro; Sweden; Switzerland; Taiwan; Slovakia; Slovenia; Turkey; Ukraine.

Free trade agreements have been signed with the following countries: Turkey, Ukraine, countries of EFTA, CEFTA, and Stabilization and Association Agreement with the EU, giving Macedonia duty-free access to markets of 650 million consumers.. On May 3, 2006, the Macedonian Parliament ratified an Agreement on the accession of Macedonia into the Central European Free Trade Agreement, effective from August 24, 2006. As from the date of entry into force of this agreement, earlier billateral free trade agreements concluded between Macedonia and countries members of CEFTA ceased to exist.



4 Banking and finance

Banking system

The financial system in Macedonia consists of the National Bank of the Republic of Macedonia (Central Bank), commercial banks, savings houses, exchange offices, the Deposit Insurance Fund, in addition to insurance companies, investment funds, pension funds, funds management companies, lease companies, brokerage houses and a stock exchange.

The banking system itself consists of 18 universal banks and 12 saving houses, regulated by the Banking Law.

The banking system is still small and has a relatively small level of financial intermediation. After the independence, at the beginning of the 1990s, the banking sector has developed rapidly but without sufficient control. This, aggravated by external factors, has led to serious problems including a liquidity crisis in the mid-1990s. Since then, the regulatory authorities have strengthened supervisory monitoring, and depositors' confidence has been restored. The situation is now fully stabilised; banks have high levels of liquidity, higher efficiency and profitability, albeit with a relatively low level of intermediation.

As a result, the mortgage and loan market has long remained under-developed. The situation has however started to improve significantly. For instance, total private sector lending has increased year-on-year by almost 20% in 2005, 30% in 2006 and about 40% in 2007.

In parallel, interest rates have been steadily decreasing, but still remain high. Average rate on commercial loans in Denar has decreased from over 12% in 2005 to 9.9% at the end of 2007.

Central Bank

The Central Bank is an independent institution, the sole money-issuer, whose main objective is to maintain the price stability.
The National Bank is responsible for the stability of the national currency (Macedonian Denar), the general liquidity of the banking system, liquidity in the payments abroad, holding and managing the foreign exchange reserves, regulating the payment system as well as the implementation of monetary policy. The Central Bank serves also as the main regulatory body responsible for the supervision of all banking institutions.

Banking market

The banking system in Macedonia currently consists of 17 private banks, 12 savings houses and the State-owned Macedonian Bank for Development Promotion. According to the Banking Law, a bank must be established as a joint stock company with the head office in the Republic of Macedonia. Banks are obliged to follow the prescribed supervisory standards regarding the solvency and capital adequacy, risk management, exposure limits, investments, liquidity.
Savings houses are limited in their banking activities to services (savings and loans) for individuals; some of them now offer as well micro-credit type financing.

A foreign bank can enter the Macedonian banking market through a representative office (with the Governor's approval), a subsidiary or a branch (with the Governor's licence). There are currently six foreign bank subsidiaries.

The three largest banks - Komercijalna Banka AD Skopje, Stopanska Banka AD Skopje (National Bank of Greece main shareholder) and NLB Tutunska Banka AD Skopje (NLB Ljubljana main shareholder) dominate the banking system, holding together more than 60% of the net assets of the banking system.

Still highly fragmented beside the 3 largest banks, the banking sector has undergone a significant change in 2007 with Société Générale taking over Ohridska Banka AD Ohrid, Milestone EHF Island taking over KIB AD Kumanovo and Alfa Finance Holding taking over IPB Banka AD Skopje. In Q1 2008 CKB Bulgaria took over Sileks banka AD Skopje. Few other banks are considering for a strategic investor from abroad.

Insurance market

An Insurance undertaking is a joint stock company with a head office in the Republic of Macedonia. With the recent changes of the Law on Supervision of Insurance, the Agency for Insurance Supervision that will conduct insurance activities supervision should be established.

The Law on Supervision of Insurance governs the conditions for performing the activities of life and non-life insurance and reinsurance. Currently, insurance services can be provided only by licensed companies registered in Macedonia. In future, upon Macedonia's entry into the second phase of EU association, an EU-based insurance company should be able to provide services through a Macedonian branch. Subsequently, upon Macedonia gaining full EU member status, EU-based insurance companies should be in a position to directly offer their services.

The insurance market consists of 12 insurance companies and 6 insurance broker companies. QBE Macedonia is the largest operator in the insurance market. Recently, Grawe, an Austrian company, entered the insurance market.

Leasing companies

The Law on Leasing was enacted in 2002. The Ministry of Finance has issued licences for financial leasing to fourteen operators, out of which seven are active. Out of those, six are fully or partly owned by foreign companies.

The leasing market is still under-developed compared to most other countries in CEE but it is now anticipated that conditions are set to further improve.

International financial market

The Macedonian Stock Exchange is a member of the Federation of Euro-Asian Stock Exchanges (FEAS) since 1996 and affiliated member of Federation of European Stock Exchange (FESE) since 2005

Memorandums of Understanding between the Macedonian Stock Exchange and the Stock Exchanges in Sofia, Ljubljana, Athens, Belgrade, Zagreb and Vienna have been signed that regulate the degree of cooperation between the Stock Exchanges as a first phase in building bilateral and regional relations

The Law on FX operations regulates that the residents, other than authorized banks, may not purchase securities abroad. The authorized banks may purchase and sell securities abroad on their behalf and for their account (only securities issued or guaranteed by Governments of member states of the OECD and by international financial institutions or securities with investment rating assessed by at least one top international investment-rating agency). The Deposit Insurance Fund, the insurance companies, the pension funds and the investment funds may purchase securities abroad in accordance with the laws regulating their operations.

Source of funds

Banks are the main source of financing, since the capital market is generally under-developed and with relatively low level of market capitalization.

The cost of borrowing remains high and interest rates currently range from 7 to 13 percent. While companies from Macedonia are free to borrow from foreign banks without restrictions, the inflow of foreign funds for this purpose has so far been minimal.

5 Importing and exporting

Customs regulations

The customs legislation of Macedonia was revised and updated by the Customs Act 2006 which became effective from January 1, 2006. The law brings Macedonia's customs regulations further into line with EU standards.

The law includes provisions for the governance and operation of free zones. Also, new simplified procedures are introduced for inward processing such as easier-to-use declarations. Furthermore, new rules provide for the guarantee of customs debt, the issuance of binding statements for tariff classification of certain goods, and binding origin statements for specific goods in determining the predictability of preferential and non-preferential tariff treatment.

Customs duties generally apply to most products imported into Macedonia. Tariffs range from 0 to 30 percent, with some food items facing a higher rate of 60 percent.

The average rate is below 7 percent, and decreasing.

The maximum rate of 60 percent is applied to products, such as fruit and vegetables, cereals, alcoholic and non-alcoholic beverages, and tobacco. The minimum duty rate of zero percent is applied to products such as materials for the textile industry. For various imported luxury products (e.g. wine, beer, cigarettes, mineral oils, tobacco) excise taxes also are applied.

A number of products are subject to quality control by market inspection officials at customs offices. These officials are employed by the Ministry of Economy to ensure that imported goods are in compliance with domestic standards.

The products subject to quality control include most agricultural products, cars and electrical appliances or products in which failure to meet set standards may pose a health risk to consumers. Where applicable, products also must pass sanitary, phyto-pathologic or veterinary control. (Additional information on sanitary requirements can be obtained from the Ministry of Health, and phyto-pathologic and veterinary requirements can be obtained from the Ministry of Agriculture, Forestry and Water Resource Management).

The Government of the Republic of Macedonia in 2007 started the first phase of the regulatory reform focused on simplification of bureaucratic procedures including issuing of import licences. 2000 regulations (laws and by-laws) were subject to re-examination by the state administrative bodies with recommendations for their simplification. The overall regulation will be included in the Single Electronic Register of regulations.

According to the Stabilization and Association Agreement 2001, between Macedonia and EU, generally, products with Macedonian origin can be exported into EU countries free of custom duties.

Foreign exchange regulations

The foreign exchange regime is governed by the Law on Foreign Exchange and accompanying regulations. According to this Law, payments to or from foreign countries are performed by banks authorised for foreign transactions by the National Bank of the Republic of Macedonia (the Central Bank). Payments on behalf and for the account of the Republic of Macedonia are carried out by the Central Bank.

There are no restrictions on current account payments. Profits and dividends from inward investments can be freely transferred abroad, after income tax is paid.
There are, however, reporting requirements applicable on investments by Macedonian residents abroad. Such investments should normally be reported to the Ministry of Economy on prescribed forms. Transfers of funds and investments abroad, by Macedonian residents, are possible, but subject to specific reporting requirements and authorisations from the National Bank.

There are no regulatory restrictions on foreign direct investments by non-residents in Macedonia. Credit transactions between residents and non-residents can be freely arranged. The only requirement is that such loans must be registered with the Central Bank. Certain legal entities conducting business activities abroad can hold deposits in foreign banks but only with permission from the Central Bank. Non-residents can freely open non-resident accounts in Macedonian banks. The foreign exchange law introduces a much more liberal regime for capital transactions.

6 Business entities

6.1 Local representation

Finding a Partner

Although there are no legal restrictions on fully foreign owned and managed companies, finding a local partner is usually highly advisable for foreign investors in order to maximise business efficiency and to access the local markets.

Finding an Attorney

Foreign attorneys are not permitted to practice in Macedonia. A domestic attorney must conduct all legal work. Foreign firms should consult with local attorneys on the legal aspects of their potential activities, including registration, licences, taxes, import / export procedures, and contracts. Additionally, a local accountant can assist with the structuring of a local company and its operations.

Franchising

Franchising is a relatively new concept for the business community in Macedonia. The legal system in Macedonia accommodates franchise agreements, although Macedonian law does not explicitly cover franchising. The Macedonian Franchise Association was recently established in 2003 specifically to help domestic and foreign companies with these issues.

The laws on labour relations are well established, leases can be freely negotiated, and laws exist to protect trademarks, patents and copyrights.

A large number of international franchises have successfully entered the Macedonian market since the end of the 1990s in the retail, hotel, rental and restaurant sectors. These include brands as Diesel, Benetton, Mango, Hugo Boss, McDonald's, Holiday Inn, Best Western, Hertz, etc..

Joint Ventures / Licensing

Existing legislation permits joint ventures, including a combination of foreign and domestic investment. With many large firms undergoing privatisation, joint ventures are becoming more common. A local company often joins forces with a foreign company that provides equipment and merchandise, while the local company provides buildings, warehouses, office space and personnel.

6.2 Forms of Companies

In accordance with the Company Law, both Macedonian and foreign individuals or companies can establish the following types of business entities:

General Partnership - this is an association of two or more legal entities or individuals who are personally and jointly liable without limit to the creditors. This liability includes their entire property.

Limited Partnership - this is a partnership of two or more entities or individuals in which at least one of the partners shall be jointly liable without limit and with his entire property for the obligations of the company ("general partner") and at least one partner ("limited partner") who is liable for the obligations of the company up to its recorded contribution in the company.

Limited Liability Company (D.O.O. or D.O.O.E.L.) - this is a company in which the shareholders participate with one share each (basic contribution) in the company's pre-determined basic capital. The basic contribution may differ in value, but the contribution cannot be in the form of labour or services. A minimum of 1 and a maximum of 50 shareholders can establish a limited liability company.

Joint-Stock Company (A.D.) - this is a company that has, by its Charter, a defined capital (basic capital) divided in equal parts (shares). Shareholders participate with one or more shares and their liabilities are secured with the entire capital of the company. A minimum of two legal entities or individuals may incorporate a joint-stock company.

Limited Partnership by Stock - this is a company in which one or more general partners who are liable jointly without limit for the company's obligations, incorporate the basic capital. Limited partners have the status of stockholders and are not liable for the obligations of the company incorporate with their entire property and the capital.

Sole Trader Companies - individuals that conduct business operations are required to form sole trader companies.

Procedures for registering different kinds of businesses:

6.3 Joint Stock Company - (A.D.)

The lowest nominal value of basic capital assets required for founding a joint stock company are as follows:

- EUR 50,000.00 in MKD counter value - by a public invitation
- EUR 25,000.00 in MKD counter value - without a public invitation
- The minimum nominal value of the share shall not be lower than EUR 1 in MKD counter value

The basic capital assets shall be registered in whole before the moment of the entry of the company into the Trade Register. The deposit may not be contributed in the form of personal labour or services. For the purposes of the evaluation of non-monetary deposits, an evaluation report by an appraiser, chosen by the founders, from the list of appraisers determined by the court, should be enclosed in the statute.

The money deposits shall be paid for, up to the moment of the entry of the company into trade register, amounting to at least one-third of their nominal value. The payment of the remainder shall be effected in one or more instalments, in accordance with the decision of the managing board, within a term that shall not exceed three years.

The Company Law provides two procedures with respect to establishing a joint stock company:

- Simultaneous founding - when the founders themselves or jointly with other persons, undertake to acquire all the shares without a public invitation. (simplified procedure similar to the procedure for the founding of a limited liability company).
- Successive founding - the joint stock company may be founded through subscription to all or to a certain number of shares on the basis of an announcement (this procedure is more complicated and is much longer (min.3 months) and is, in practice, little used).

Entry of the company into the trade register

The managing entity of the joint stock company shall immediately submit the application for the entry of founding of a joint-stock company into the trade register. The following documents shall be also attached to the application:

- the founding deed, as well as the statute;
- the enactment on undertaking of shares and one copy of the prospectus on the basis of which the whole sum or part of the basic capital assets had been subscribed;

- the minutes of the founding assembly, the invitation to it and the list of participants;

- the statement of the nominated managing entity confirming that the payments for shares prescribed by law have been effected and that, upon the entry of the company into the trade register, the company may freely dispose of the payments and the non-money deposits and purchases at the time of founding. The receipt of a competent financial institution for the payments made in cash is also required;

- the list of members of the board of directors, i.e. of the managing board and of the supervisory board.This should include their full names, occupation, place of residence and citizenship. Should this include foreign nationals, statements of the members of the company confirming acceptance of their membership would be required;

- the licence, if required in accordance with the law, and the appraiser's report.

The entry of founding of the joint-stock company should be carried out once the statute of the company has entered the trade register.

The company registration procedure is as follows:
Since January 1, 2006, the Central Registry has become the only body authorised to carry out the registration of a new local company or a branch office of a foreign company. At the same time it has implemented a One-Stop-Shop system through which the registration of a company only lasts five working days. The One-Stop-Shop system undertakes all registration procedures with various state bodies (including the provision of a tax ID no.). Following registration, the company must perform the following:

- Open a Bank Account;

- Registration with the Customs Authorities (if the company is registered for foreign trade activities);

- Registration with the Public Revenue Office to obtain a VAT number; and

- Registration with the Ministry of Economy (applicable to foreign direct investments);

Systems of management of a joint stock company
The management of a joint-stock company may be organized in accordance with a one-tier system (board of directors) or a two-tier system (separate management and supervisory boards).

- One-tier system

Board of directors: The board of directors is composed of non-executive and executive members (directors), numbering at least 5 (five) but not more than 15 (fifteen) members.

- Two-tier system

Management Board: The Management Board shall consist of at least 3 (three) and not more than 11 (eleven) members. The Supervisory Board shall nominate the members of the Managing Board. No single person may be a member of the Managing Board and a member of the Supervisory Board at the same time.

The President of the Management Board shall act as an agent and representative of the joint-stock company in relations with third parties. The statute of the company may authorise the Supervisory Board to allow one or more members of the Management Board bearing the title of General Manager(s), to act as agents of the company.

Supervisory Board: The Supervisory Board shall consist of at least 3 (three) and no more than 11 (eleven) members. The assembly of the company shall nominate the members of the Supervisory Board.

General Meeting (GM) of the Joint Stock Company (A.D.)
The shareholders shall exercise their rights in the joint-stock company, especially in relation to the preparation of annual balance sheets, the removal from office of members of the company's administration, etc.

The members of the Board of Directors i.e. of the Supervisory Board and the Management Board may participate in the GM without voting rights, unless they are shareholders.

6.4 Limited Liability Company - (D.O.O. or D.O.O.E.L)

The Limited Liability Company is, in practice, the most common form of business entity. A single founder (i.e. one person) may establish a limited liability company. The company may have a maximum of 50 founders. The company's capital assets are deposited by the founders. The founders shall not be liable for the obligations of the limited liability company. The basic capital assets shall be at least EUR 5,000 in MKD counter value, in either cash or assets. If the capital is invested in assets, a qualified appraiser must perform the appraisal. The amount of each separate deposit may not be less than EUR 100 in MKD counter value.

Type of management

The company must have one or more managers, with limited or unlimited authority, according to the statutory deeds of the company. If the founder is a single person, the company is established with a Statement. If there are two or more investors, the company is established with an Agreement.

Documentation

When the founder is an individual foreign citizen, a notarised photocopy of the founder's passport should be submitted. The photocopy has to be translated by an authorized translator. When the founder is a foreign firm, a photocopy of the court registration of that firm, duly notarized and translated by an authorized translator, should be submitted.

The company must have a location based on the ownership title or contract for rental of the estate or business premises.

Name of the company

While foreign words can be included in the company's name, they must nevertheless be written in the Cyrillic script for the purposes of submission with the Central Registry.

6.5 Branch Office

A foreign company can establish a branch office in Macedonia if it is registered in the Trade Register of its domicile country. The branch can perform the same activities as the foreign-domiciled company. The branch may perform activities in the name, and on behalf of, the foreign-domiciled company, including use of its name and address. Consequently, the foreign-domiciled company would incur full liability over the branch operations.

If a foreign-domiciled company establishes several branches in Macedonia, it must designate a main branch (central branch office) in the Trade Registry. The trade name of the other branches must include the trade name of the Macedonian central branch, as well as the reference numbers of the other branch offices, according to their order of entry in the register.

A foreign sole proprietor has the right to establish only one branch. The foreign trade company or sole proprietor must apply to the local court for registration.

The following documents must be included with the registration in the court trade register:

- An excerpt from the Registry in which the founder is entered, showing the content and date of entry;
- A copy of the Company Agreement or Charter certified by an authorized administrative body of the company's country of origin, as well as a certificate issued by the foreign authorities proving that the submitted Agreement or Charter is still in effect. If the laws of the company's country of origin do not require a written Agreement or Charter, a certificate proving the existence of the company, its interest holders and their liabilities, issued by the relevant diplomatic or consular office of Macedonia, must be submitted. This must include a list of persons to whom representation of the company in Macedonia has been entrusted, including their names, occupations, residential addresses and citizenship. Proof that these persons have been legally designated according to the Company Agreement or Charter, and the laws of the company's country of origin, must be attached to the list;
- A decision issued by the authorized body of the company establishing the branch;
- A certified copy of the company's credit rating issued by a relevant authority or chartered audit enterprise under the laws of its country of origin;
- A description of activities to be performed by the branch.

Liability in legal transactions

A foreign-domiciled company or sole proprietor shall be liable, with its entire assets, for the liabilities arising out of a branch's operations..

Where the person establishing the branch is registered in the country, in which it has maintained a main office, for less than two years preceding the date on which the application for establishment of a branch was filed, the founders of the foreign company, or the foreign sole proprietor, shall be held jointly and severally liable for a period of two years, following the date of establishment, for any liabilities which arise in respect of the activities.

Representatives

A foreign trade company shall appoint one or more representatives, for each branch office, undertaking activities for the company in Macedonia. The representatives appointed with the Macedonian Central Branch Office shall act as representatives of the other branches. All representatives must have permanent residence in Macedonia.

6.6 Representative office

A representative office of a foreign company is not a legal entity. It is only permitted to undertake activities of a research or information-gathering nature.

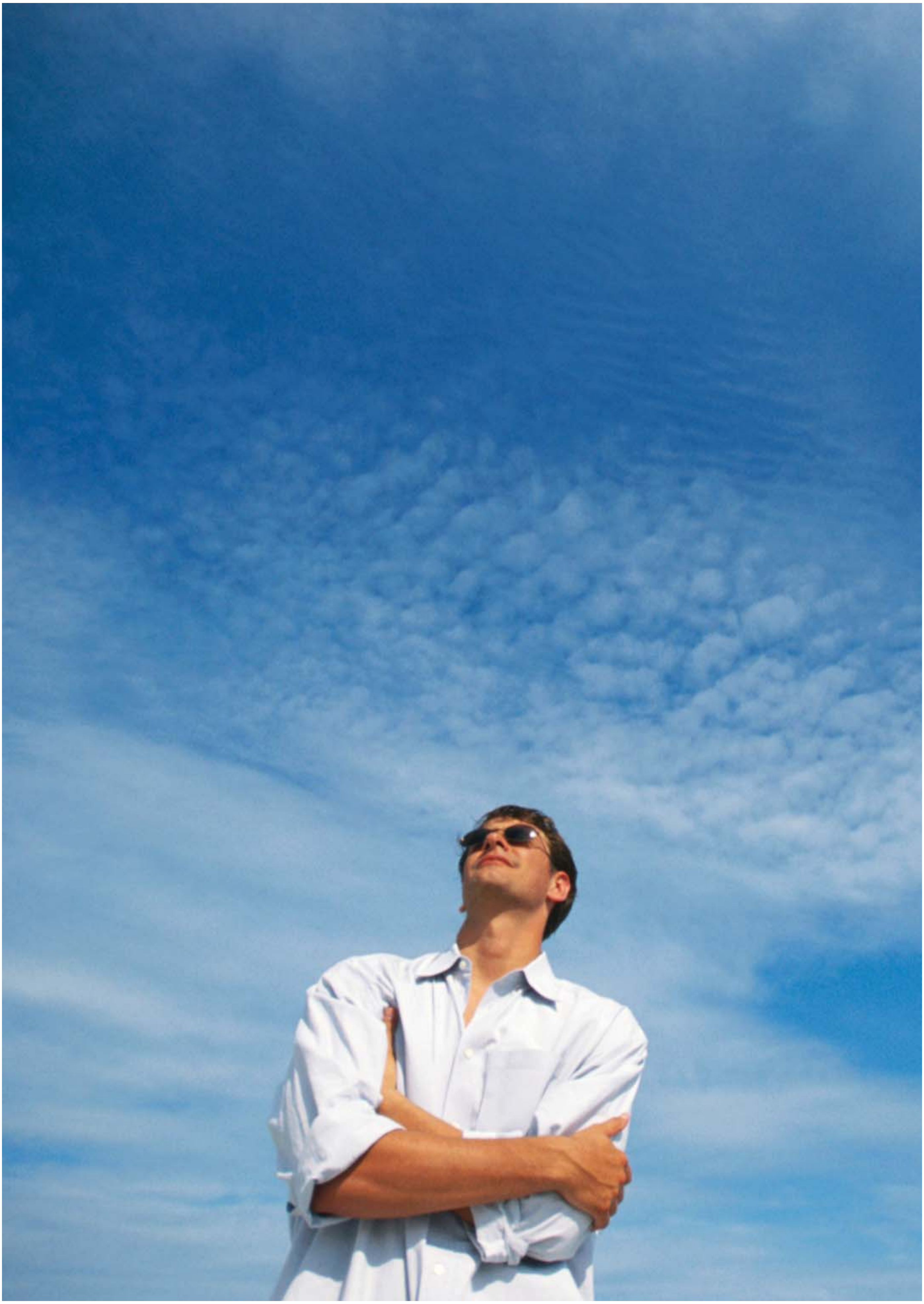
Documents needed:

- Authorized copy, from the court registration, of the foreign company;
- Address of the representative office in Macedonia;
- Name, ID or passport number of the person authorized to sign all the documents necessary to establish the representative office;
- Name, ID or passport number of the Manager of the representative office;
- Name, ID or passport number of all employees (local citizens) of the representative office.

Other documents required:

- Decision for opening the representative office;
- Request to enter the representative office into the Register of Foreign Representative Offices in Macedonia at the Ministry for Economy;
- A working program of the representative office;

A Statement of the foreign-domiciled company assuming all obligations connected with activities of the representative office in Macedonia..



7 Labour relations

7.1 Labour market

Ever since the 1980s, Macedonia has suffered from high rates of unemployment. At the time of Independence, the unemployment rate was close to 24%. The restructuring of the economy has led to an overall decline in labour demand, and the overall low growth and lack of major investments have failed to create a sufficient number of job opportunities.

Additionally, the labour law has not permitted sufficient flexibility in the labour market. Recent labour market reforms, including a new Labour Relations Law, in 2005, has injected some labour market reform of benefit to employers.

Currently, the rate of unemployment is 36%. Unemployment is particularly acute among women and the ethnic minorities. The official employment statistics are as follows:

	2002	2003	2004	2005	2006	2007:Q3
Number of employed persons - 000's	561	545	523	545	570	598
Number of unemployed persons - 000's	263	316	309	323	321	311
Unemployment rate	31.9%	36.7%	37.2%	37.3%	36.0%	34.2%

It should be noted that the official figures do not reflect the large "informal" economy, as a result of which, the actual numbers of jobless may be significantly lower.

7.2 Labour relations

The employment relation is regulated by an individual employment contract pursuant to the Labour Relations Law. The employment contract, which must be in writing, and kept at the employer's the premises should govern the following:

- information concerning the contracting parties (employer & employee);
- the commencement date;
- the duties of the employee and the place of work;
- the term of employment (part-time or full-time);
- working hours;
- vacations and other leave;
- the compensation and pay period;
- list of the general acts determining the working conditions.

Trade Unions

The two principal Unions are the Council of Trade Unions of Macedonia and the Union of Independent and Autonomous Syndicates of Macedonia.

About 75% of the employed labour force are members of a union. Membership is voluntary and activities are financed entirely by membership fees.

Collective bargaining agreements are negotiated between the labour unions, the Ministry of Labour and Social Welfare, and the Employers Association. Contracts are also negotiated at company level.

7.3 Wages and salaries

As of December 2007, the average monthly net salary was MKD15,543,00 (c. EUR253). For the period December 2006 - December 2007, nominal net wages rose by 12.2%.

Collective agreements define a minimum salary for each professional activity.

Salaries are computed and paid at least once monthly. Social Contributions and personal taxes are withheld by the employer along with the payment of salaries to employees.

Employees are entitled to salary compensation during leave from work, under conditions, and in the amount, determined by the Labour Relations Law and respective collective labour agreements. This applies to:

- annual leave;
- sick leave;
- maternity leave;
- vocational training arranged by the employer;
- other cases stipulated by the law and collective agreements.

7.4 Social insurance/Pensions

Employers are obliged to withhold from an employee's gross salary, and pay into the accounts of respective funds, compulsory social contributions, as follows:

- 21.2% - pension and disability insurance;
- 9.2% - health insurance;
- 1.6% - employment;
- 0.5% - additional health insurance.

The rights arising from contributions of pension and disability insurance include:

- retirement and disability pension;
- vocational training;
- family pension;
- monetary allowance for physical injury.

Amendments to the Law on Pension and Disability Insurance, in March 2002, gave rise to a multi-tier pension system, which comprises of three tiers, although the third tier is yet to be introduced:

- First tier - a compulsory state pension fund, in which 13.78% of the gross salary is paid;
- Second tier - a compulsory private pension fund, in which 7.42% of the gross salary is paid; and
- Third tier (to be introduced) - a private pension fund made up of voluntary contributions.

For the second tier, employees can contribute to either one of two private pension funds: Nov Penziski Fond or KB Prv Penziski Otvoren Fond.

Rest and leave periods

Employees are entitled to the following rest and leave periods:

- A 30-minute break during daily working hours;
- Rest of at least 12 hours between two consecutive working days;
- Rest of at least 24 consecutive hours per week. Should employees be required to work during this period, the leave hours should be carried forward into the following working week.
- Annual leave, during the course of one calendar year, between 20 and 26 working days.
- Up to seven days paid leave, in cases of marriage, death of close family members, professional examinations and other employer requirements, in accordance with the terms and conditions of respective collective agreements.

Should employees be assigned to professional training, the leave may exceed seven working days.

Sick leave

Employees are required to notify employers, within 24 hours, of having taken sick leave. Approved sick leave shall not be considered as justifiable grounds for termination of employment.

According to the Health Insurance Law, which requires mandatory health insurance, insured persons have a right to basic health services and health protection arising from illness, work-related injuries,and occupational diseases.

Insured persons are also entitled to salary compensation due to illness-related work absences.
The employer is obliged to make salary payments during the first 60-days of sick leave.. After that period, any payments should be made by the Health Insurance Fund.

Maternity leave and benefits

In accordance with the Labour Relations Law, women are given special protection.

Female employees are entitled to nine months continual leave from work during pregnancy, birth and maternity, and one year's leave in case of a multiple birth.
Based on the findings of authorized medical institutions, female employees may begin maternity leave 45 days before delivery and compulsorily 28 days before delivery.

During maternity leave, female employees are entitled to pay in compliance with the health care regulations.

A female employee entitled to maternity leave, may return to work, prior to the end of the maternity leave period.

Compensation during maternity leave is equal to the employee's actual remuneration, but no more than two average net salaries paid in Macedonia, in the last year. The compensation is paid by the Health Insurance Fund.

Termination of Employment

According to the Labour Relations Law, employment can be terminated in the following instances:
- By agreement between the employer and employee;
- Upon the expiry of a fixed-term of employment;
- When enforced by law;
- By notice, supplied either by an employer or employee;
- Due business reasons (e.g. restructuring).

7.5 Work permits/visas

In relation to employment, foreign nationals and Macedonian citizens have equal rights in the workplace.

A foreign individual can exercise an employment in Macedonia upon receiving approval for either temporary or permanent residence in the country. A foreign individual can also exercise an employment in Macedonia subject to approval being issued by the Employment Agency of the Republic of Macedonia. Towards the end of 2007, the immigration and visa rules were overhauled. Under the new rules, foreign individuals coming to work in Macedonia are required to apply for a work permit. Several types of such permits are available. The choice of any particular work permit is dependant upon the nature and duration of the work to be undertaken in Macedonia.

Public holidays

January 1	New Year's Day
January 7	Orthodox Christmas
Variable date	Orthodox Easter (2 days)
May 1	Labour Day
May 24	St Cyril and Methodius Day
August 2	Ilinden Uprising Day
September 8	Independence Day
October 11	Uprising Day
October 23	Revolution Day
December 8	St Clement Ohridski Day
Variable date	Ramadan Bajram

Depending on the religion or nationality, Macedonian residents are entitled to various respective holidays

8 Audit and Accounting

8.1 Audit and accounting requirements and practices

Accounting and financial statements

Annual financial statements

According to the Company Law, all legal entities are obliged to prepare annual accounts at the end of each calendar year. Annual accounts have to be prepared in accordance with local accounting rules.

In addition, listed companies, large and medium-sized entities are also obliged to prepare and submit financial statements prepared in accordance with IFRS.

Entities are classified as follows:

Criteria	Small trader	Small business establishment	Medium-sized company	Large company
Average number of employees	< 10	< 50	< 250	< 250
Annual incomes (EUR)	< 50,000	< 2,000,000	<10,000,000	<10,000,000
Total assets (EUR)		<2,000,000	<11,000,000	<11,000,000

The practical application of the law is not without challenge. There are areas of practical difficulty surrounding:

- The lack of trained accountants in the industry who are familiar with IFRS;
- Inconsistent interpretation of the IFRS related accounting laws;
- Mandatory formats of primary financial statements which do not always permit all balances and transactions to be appropriately presented;
- Benefits of applying IFRS not always understood by local companies.

The financial statements include:

- Balance Sheet.
- Income Statement.
- Statement of Changes in Equity;
- Cash Flow Statement;
- Significant Accounting Policies;
- Notes to the related financial statements.

Audit

The Law on State Audit has been in force since 2004 and the New Audit Law has been in operation since 2005.
The adoption of these laws relating to audit in the Republic of Macedonia have created an audit environment similar to that of most Western-developed countries:

- The VIII EU Directive, which refers to the conditions required of certified auditors in relation to competence and independence, were incorporated into this law.
- The Audit Law (amended and modified in 2000, 2001, 2002 and 2005), stipulates that audit activities are to be performed pursuant to International Standards on Auditing.

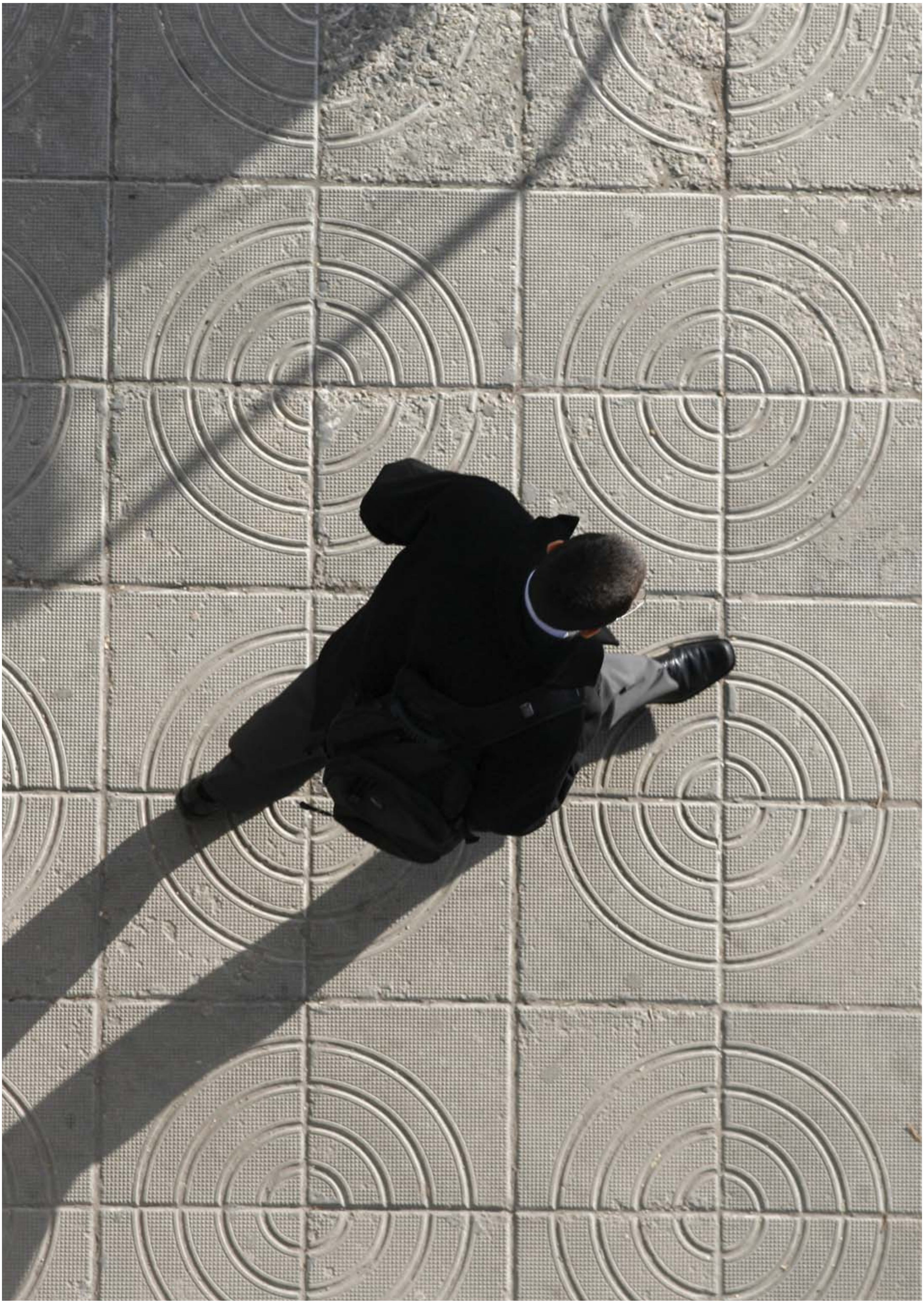
The Audit Law defines the conditions under which an entity performing its activities, and having a main office in the Republic of Macedonia, is obliged to submit financial and accounting statements for a statutory audit. These conditions include:

- More than 50 employees; and/or
- Turnover and total assets exceeding EUR 2 million.

The Audit Law also enables businesses to undergo voluntary audits.

The Audit Law requires that an audit be performed by an Audit company registered with the Central Register or otherwise by a certified auditor that operates as a sole proprietor in accordance with the Company Law.

The Institute of Authorised Auditors issues the license for operating as an Audit company or certified auditor. The Audit Law contains the terms and conditions for acquiring the title - "Authorised Auditor".



9 Taxation

9.1 Profit Tax

Basis of taxation

Profit Tax is paid by resident legal entities both on the profit arising from the activities performed on the territory of the Republic of Macedonia and from incomes generated abroad.

A legal entity is considered resident if registered in accordance with the Company Law, or if it has a head office on the territory of the Republic of Macedonia.

The residents are taxed for the profit they generate both in the country and abroad, while the non-residents are taxed only for the profit they generate from a business activity on the territory of the Republic of Macedonia.

Permanent establishment

In 2006, The Profit Tax Law introduced the concept of a Permanent Establishment. Generally, a permanent establishment is a fixed place of business through which the business of an enterprise is wholly or partly carried on either directly or through a dependent agent.

More specifically, the domestic law provides that a permanent establishment could specifically include a place of management, a branch office, a factory, a workshop, mining activities or any other place of extraction of natural resources.

A building site or construction or installation project may constitute a permanent establishment if it lasts more than twelve months.

Furthermore, the provision of services, including consulting services, shall be deemed to give rise to a permanent establishment if such activities last longer than 90 days within a 12-month period.

Tax rate

The profit tax rate amounts to 10%.

Tax base

The profit tax base is the profit determined in the tax balance, as a difference between the actual total revenues and the total expenditures of the taxpayer. The tax base is determined in accordance with a range of deductible and non-deductible items. Some of these include the following:

- he calculated gross salaries of the employees are tax deductible up to the paid amount
- the income of the employees on the basis of the share in the profit, are not tax deductible
- the personal income of the managing and supervisory board members are recognized as expenditures in the tax balance in the amount of 50% of the paid amount;
- the depreciation of the intangible and tangible assets is recognized as expenditure in the tax balance up to the amount calculated on the procurement value of assets by applying the depreciation rates established with the Nomenclature of the depreciation funds
- depreciation calculated on intangible and tangible assets on which the exemption on the base of reinvested profit, is not tax deductible in the period up to the full depreciation of the assets, in the amount determined proportionally to the applied tax exemption.
- the expenditures on the basis of interests on credits used exclusively for performance and conducting business activity is fully tax deductible
- the costs for research and development incurred within own research and development centres or through independent scientific and research institutions are fully tax deductible
- the premiums paid for insurance of the tax payer's business property and all kinds of compulsory non-life insurance determined by law are tax deductible
- paid reimbursements of costs connected with the work of employees regarding the following: transportation to/from work, food, one-off reimbursement in the form of severance payment at retirement are tax deductible up to the amount paid
- property tax, fees and other paid public duties not depending on the operating performance, except for withholding taxes, sare tax deductible
- the costs for economic propaganda and marketing which are in function of improving the tax payer's business are recognized as a tax deductible expenditures in the tax balance in the amount of the actual costs
- the outlays for donations shall be recognized as expenditures in the tax balance in the amount of 5% of the overall revenue, and sponsorship outlays in the amount of 3% of the overall revenue, pursuant to the manner, the conditions and the procedure set in the Law on Donations and Sponsorships in Public Activities;
- paid reimbursements of costs for the following: business trips (except for usage of private vehicle for business trips) field allowance and allowance for separate life from the family are recognized to the persons as expenditures in the tax balance up to the amount set in the general collective agreement for economic activities in Macedonia, i.e. regulations of government administration bodies
- the expenditures for usage of private vehicles for business purposes are tax deductible expenditures in the tax balance in the amount of 50% from the paid amount.
- the revenues realized on the basis of the funds that are strictly earmarked for performance of the taxpayer's activity (budgets, funds) are not included in the tax base for calculation of the profit tax;
- the value of the supplies from the uncompleted production, intermediate products and final products is estimated maximum at the full cost;

Dividends

The dividends realized with participation in the capital of another tax payer-resident of the Republic of Macedonia, including also the revenues from the participation in the limited liability companies' profit are not included in the tax base on condition they are taxed at the taxpayer when the payment is done.

Capital gains

The capital gains realized form the sale of securities, equipment and real estate are included in the tax base in the amount of 70%.
If capital loss is incurred, it is recognized to be covered from the expenditures in the tax balance, and as far as the capital loss incurred with the sale of securities is concerned, it is off set with the capital gains realized during the same year.

Investment and tax incentives

- *The taxpayer shall be approved a reduced tax base for the amount of **reinvested profits**, for new investments in the Republic of Macedonia in: tangible assets (real estate, facilities and equipment) and intangible assets (computer software and patents), for expansion of the activities, except for investments in cars, furniture, carpets, audio-visual devices, appliances, pieces of figurative and applied art and other decorative object used to equip administrative premises;*

Reinvested profits shall mean profits earned under the annual statement, which, via allocation, was set aside from the taxpayer's capital and invested in the next year for the above mentioned purposes;

In order for the taxpayer to realize the right to tax exemption on the base of the reinvested profit, he/she must not alienate or otherwise transfer the assets for a period of three years, starting from the year in which the investment was made;

- *The taxpayer which uses **technological industrial development zone** is exempt from profit tax payment for a period of 10 years from the commencement of the performance of the activity in the zone under terms and conditions and according to a procedure determined with the Law on Technological and Industrial Development Zones ;*
- *The taxpayer that is obliged, in accordance with the Law on Registration of Cash Payments, to introduce and use approved **equipment for registering cash payments**, shall be granted reduction of the calculated tax for procured up to ten fiscal machines, in the amount of their value.*
- ***Losses from business, financial and non-business transactions** could be carried forward against the profit earned in the future accounting period, but up to 3 years from the year they are reported in. This right cannot be used in case of status change of the taxpayer on the basis of merger, acquisition, division, ownership transformation etc.*
- ***The dividends** realized with participation in the capital of another company are tax exempt, if they are taxed at the taxpayer who makes the payment at general rate under the Law on Profit Tax.*

Simplified tax regime for small companies

Companies that perform economic activity, except banking, financial, insurance activities and games of chance and entertainment games and its overall revenues earned in the last three years from any source does not exceed MKD 3,000,000 on annual level, shall calculate and pay annual tax on total revenues in the amount of 1.5% of the amount of earned total revenues presented in the income statement in the Annual statement for the previous calendar year.

Witholding income tax, paid to foreign legal entities

Domestic legal entity, domestic physical person - registered for carrying out an activity and foreign legal entity or physical person - non-resident, having permanent establishment in the Republic of Macedonia are liable when paying an income to a foreign legal person, to withhold and pay the withholding tax simultaneously when the income is paid.

Withholding tax is applied to the following incomes payable abroad:

1) dividends;
2) interest from residents;
3) interest from non-resident with permanent establishment in the Republic of Macedonia,
4) royalties paid by residents;
5) royalties paid by non-resident with permanent establishment in the Republic of Macedonia;
6) income from entertainment or sporting activities in the Republic of Macedonia;
7) income from management, consulting, financial services, services releted to research and development;
8) income from insurance or reinsurance premiums
9) income from telecommunication services between the Republic of Macedonia and foreign country.

The tax shall not be withheld on the following revenues:

1) transfer of part of the profit of the permanent establishment of a foreign legal entity in the Republic of Macedonia, for which profit tax has been paid previously;
2) revenue from interest on debt instruments issued and/or guaranteed by the Macedonian Government, the National Bank of the Republic of Macedonia and banks or other financial institutions acting as representative of the Macedonian Government;
3) income from interest on deposits in a bank located in the Republic of Macedonia; and
4) income from intermediation or consulting regarding government securities on the international financial market.

Double taxation avoidance

Resident taxpaying entity which had paid tax on profit generated abroad, would be entitled to a tax credit on the calculated tax by the amount of profit tax paid abroad, but only up to the amount that would have been incurred under the provisions of the Profit Tax Law.
The Republic of Macedonia signed double taxation avoidance agreements with 30 countries: Netherlands, France, Italy, Sweden, Denmark, Finland, Switzerland, Hungary, Croatia, Turkey, Yugoslavia, Poland, People's Republic of China, Russia, Ukraine, Slovenia, Bulgaria, Republic of China, Egypt, Albania, Iran, Romania, Belarus, Spain, Czech Republic Moldova, United Kingdom of Great Britain and Northern Ireland, Austria, Latvia and Germany.

Additionally, Macedonia has adopted the treaties with Cyprus, Slovakia, Malaysia, Norway and Belgium concluded by Former Yugoslavia.

9.2 Excise Duty

Pursuant to the Law on Excise , which is fully in compliance with the EU Directive on Excises no.92/12/EEC (including other directives implemented for approximating the excise rates separately for each category of excise goods) only the consumption of excise commodities as stipulated as in applicable EU directives are subject to excise duty. These are as follows:

- Mineral oils;
- Tobacco commodities;
- Alcohol and alcoholic beverages; and
- Passenger vehicles.

Excisable commodities are subject to excise duty under the following conditions:

- Arising from production within the territory of the Republic of Macedonia;
- Arising from import into the country; and
- Where the commodities are under customs custody;

Charge to excise

The charge to excise occurs upon the delivery of commodities subject to excise tax for consumption in an excise warehouse or with their exit from the warehouse. The exception applies in cases where the commodities in the excise warehouse are either exempt from excise tax or subject to a new procedure that removes liability to excise duty. Commodities subject to excise tax located in an excise warehouse at the moment the excise license expires are treated as re-leased in excise-free circulation.

The excise duty arises on the import of commodities which are subject to excise duty in the territory where the excise is paid.

Excise payer

The excise payer is a physical person or legal entity who holds an excise license.

The excise payer, in cases of the non-existence of procedure for excise debt occurrence, is the producer of the excise commodity.

If the guarantee for the excise commodity is provided by the transporters, the entity or owner declaring customs are considered the excise payers.

If the charge to excise has not arisen, and the recipient has already received the excise commodity in the territory where the excise is paid, then the commodity is judged to be in the authority of the receiver, who is then considered the excise payer.

The excise period for which excise is calculated and paid is one calendar month in which the excise has occurred.

Exemptions from excise

Exemption from excise applies to all excise commodities when intended for the following:

- Diplomatic and consular missions;
- International organizations;
- Military forces of contractual parties - members of NATO;
- Used as samples for analysis of the necessary production tests or scientific and research purposes;
- Destroyed under tax authority supervision;
- Personal baggage carried abroad by a traveller;
- Mineral oils and gas kept in reservoirs of motor vehicles or airplanes coming from abroad, not intended for further sale.

Exemption from excise to mineral oils applies as follows:

- not used as engine fuel or for heating;
- used in air traffic except when used in a plane for private purposes;
- used in furnaces as an additive to the main fuel;
- used for special vehicles for the purpose of defence and security.

Excise exemptions applicable for alcohol and alcoholic beverages:

- for production of vinegar;
- upon complete denaturisation according to the relevant regulations, and then placed in excise-free circulation;
- for the production of a product, not suitable for human consumption, from denaturized alcohol;
- for the production of medications;
- for medical purposes in hospitals, clinics and pharmacies;
- directly or as an integral part of semi-finished products for the production of food
- When used for the production of aromas for food products and soft drinks.

Exemption on the basis of donations

The import of goods for the realization of projects shall be exempt from excise where financed by foreign donors, for whom there is a contract between the Government of the Republic of Macedonia and the foreign donor containing a clause that such funds shall not be used to pay taxes

The exemption procedure is initiated by the entity obliged to realize the project - the implementing agency - by submitting a request on the prescribed A3-P form to the Ministry of Finance.
With regard to excise and VAT refunds, any procured goods and services utilised for business purposes in the Republic of Macedonia (i.e. electricity, water, telephone, heating, fuel, office supplies, etc.),
the entity/implementing agency is obliged to submit a request for project realization to the Ministry of Finance on form A2-P.

Excise amount

The excise amount is determined in accordance with either a percentage rate - proportional excise, or in an absolute amount per measurement units (e.g. kilogram, litre, piece) - specific excise.

9.3 Property Tax

Property Tax shall be paid on the ownership of real estate, i.e. land (agricultural, construction, forest and pastures) and buildings - residential buildings or flats, business buildings and business premises, administrative buildings and administrative premises, buildings and flats for rest and recreation, and other construction facilities, as well as installations constructed on them or below them and permanently attached to them.

Property taxpayer is legal person and physical entity owner of the property. In case when the owner is not known or cannot be reached, property taxpayer is the legal entity and the physical person user fo the property. Property taxpayer can also be the taxpayer who usufructs the property, and if the property is owned by several persons, each of them is a property taxpayer proportionately with the part owned. Property taxpayer is legal entity and physical persons - user of the real estate owned by the state and the municipality.

Property tax base is the market value of the real estate. For the purpose of determining the market value of the real estate, Municipal Council, Municipal Council of the City of Skopje and the Council of the City of Skopje establish a Commission. Market value is determined according to the Methodology for determining the market value of real estate.

Property tax rates are proportional and amount from 0.10% to 0.20%. They can be determined on the basis of the type of property. Thus, tax rates of the property tax on agricultural land not used for agricultural production can be increased from three to five times in relation to the basic rates.
The amount of the rates is determined by a decision by the Municipal Council, Municipal Council of the City of Skopje and the Council of the City of Skopje pursuant to the Law on the City of Skopje.

The taxpayer paying property tax for residential building or flat, in which he/she lives with family members, is entitled to reduction of the calculated tax by 50%.

9.4 Inheritance and Gift Tax

Inheritance and gift tax is paid on real estate and entitlement to usage of real estate, which the heirs, i.e. the receivers of gifts inherit, i.e. receive on the basis of the Law on Inheritance, i.e. agreement on gift. It is also paid for cash, money claims, securities and other movable property. Value of all gift of same type, revived in the course of one calendar year, is tax base. Municipal administration, administration of the municipality of the City of Skopje and the administration of the City of Skopje keep records on the value of the gifts, on the basis of which, at the end of the year, the tax can be determined for the person receiving the gift, should he/she received more gifts of same type and in the amount of the prescribed amount in the course of the year.

Inheritance and gift taxpayer is a physical person or legal entity - resident of the Republic of Macedonia, who inherits property or receives property as gift in the country or abroad, as well as foreign physical person and legal entity - non-resident, for the real estate and movable property he/she inherits or receives as a gift on the territory of the Republic of Macedonia.

Inheritance and gift **tax base** is the market value of the inherited property or the property received as a gift, at the moment of occurrence of the tax liability, reduced for the debts and expenses burdening the property liable to taxation.

Property **tax rates** are proportional and differ on the basis of the order of succession.
Heir or receiver of first order of succession is exempt from paying the tax. Inheritance and gift tax for the taxpayer in the second order of succession is paid at 2% to 3% tax rate, and for the taxpayer in third order of succession or a taxpayer who is not related to the testator, it is paid at 4% to 5% tax rate.

9.5 Tax on Sales Of Real Estate

The sale of real estate is subject to tax on sales of real estate. Sale of real estate is the transfer by compensation of the right to ownership of real estate, the replacement of one real estate with another, as well as other means of acquiring real estate with compensation between legal entities and physical persons. In addition, transfer of securities, on the basis of compensation, is considered sales of real estate.

Taxpayer is legal entity and physical person, seller of the real estate. As a exception, taxpayer can also be legal entity and physical persons - buyer of real estate, if the sale and purchase agreement states for the buyer to pay the tax.

When replacing real estate, the taxpayer is participant in the replacement, i.e. the party that replaces real estate of greater value.

If ideal portion of the ownership of the real estate is transferred, taxpayer is each owner separately.

If the right to ownership of the real estate is transferred on the basis of lifelong support agreement, the receiver of the real estate, i.e. his/her heirs, is the taxpayer.

When selling the real estate in bankruptcy and executive procedure, as well as when realizing agreements on mortgage, the taxpayer can be the buyer of the real estate.

Tax base is the market value of the real estate and right at the moment of occurrence of the liability.

When replacing the real estate, the tax base is the difference of the market values of the real estate being replaced.
When transferring ideal portion of the oqnership of the real estate, tax base is the market value of the ideal portion of the real estate.

When selling the real estate in bankruptcy and executive procedure, tax base is the attained selling price.

Tax rates are proportional and amount from 2% to 4%.

The amount of the rates is determined by a decision by the municipality and the Municipal Council of the City of Skopje and the Council of the City of Skopje pursuant to the Law on the City of Skopje.

Tax liability occurs on the day of concluding the agreement on transfer of right to ownership over the real estate, i.e. of replacement of real estate.

If the transfer of the right to ownership is carried out on the basis of a decision by a court or other government body, tax liability occurs on the day of effectiveness of that decision.

If right to ownership over construction facilities being under construction is transferred, tax liability occurs on the day of handing over the facility to the buyer.

If the transfer of ownership over the real estate is carried out on the basis of an agreement on life support, tax liability occurs at the moment of death of the person receiving the support.

9.6 Personal Taxation

The personal income tax is a tax paid by taxpayers - physical entities on the overall income they earn from various sources, i.e. on all income they earn in the country and abroad during a calendar year.

The income subject to taxation comprises the following types of revenues:

- **personal earnings** - all revenues earned by the taxpayer on the basis of employment, including revenues under contractual services. Personal income comprises wages and salaries and other allowances on the basis of employment, pensions, income of the members of company management and supervision bodies, salaries of officials, MPs and advisors, salaries of professional athletes, allowances for jurors, forensic experts, trustees, allowance of the members of the Macedonian Academy of Sciences and Arts, salary earned abroad on the basis of employment in the country and every individual income on the basis of contract for occasional or temporary rendering of services by legal entities and physical persons.
- **income from agriculture activity** - incomes earned by individual farmers. Their income is taxed on the basis of cadastre income or, in some cases, the tax authorities may determine the tax to be paid according to the real income.
- **income from self-employed activity** - is income realized by persons from business activities or from rendering professional and other intellectual services, such as doctors, lawyers, notaries public, tax consultants, engineers, architects, accountants etc. If several physical persons realize income from joint activity, each shall be personal income taxpayer for the share of the income belonging to him/her, according to the agreement for joint activity.
- **income from property and property rights** - incomes earned by the physical persons from lease and sub-lease of immovable property, equipment, transportation vehicles and other property. The taxpayer is recognized the deduction expenses for maintenance and management up to 25% from the annual gross revenue, and in case of lease of equipped residential and business premises, up to 30% of the annual gross income. If the taxpayer provides evidence that he incurred costs higher than the stipulated ones, the real costs would be recognized.
- **income from copyrights and industrial property rights** - depending on the type of artwork (paintings, artistic work in music, film etc), the taxpayer is recognized the deduction expenses in the amount from 25% to 60% of the gross income.
- **Capital revenues** - refer to revenues realized from the following:
  - dividends and other income realized through participation in the profit with legal and physical persons;
  - interests on loans given to physical and legal persons;
  - interests on bonds or other securities; and
  - interests on time savings and other deposits.

Dividends are subject to 10% advance withholding tax on the amount of the gross dividends, while the interest is subject to 10% tax rate on the amount of the calculated interest. Interest from loans, interest on bonds issued by the Republic of Macedonia and LGUs and interest on savings deposit are not subject to taxation, while interest on time and other deposits will not be taxed until January 1st, 2009.

- **Capital gains** - refer to the income realized by the taxpayer as positive difference from the sales of securities, share of capital and real estate, between their sale and purchase price. Basis for taxation is 70% of the earned capital gains, taxed in advance with 10% tax rate. Capital losses from sale of securities could be offset with the capital gains earned on this basis, and the difference could be offset with gains earned in the next three years. Capital gains from sale of immovable property sold by the taxpayer after three years from the day he acquired it shall not be subject to taxation.
- **Gains from games of chance** - income from games of change and other prize games. The tax is not paid on the realized gains if it does not exceed the amount of MKD 10.000, otherwise the tax is paid on the total amount of the gains, at 10% rate.
- **Other income** - all that income realized by the physical persons, which is not covered by the Law on Personal Income Tax. The tax base is determined by deducing 35% of determined costs from the gross income and the calculated and paid tax is considered as fully settled tax liability.

All listed income realized in money, securities, in kind or other type is subject to taxation.

Taxpayers

Pursuant to the present Law on Personal Income Tax, every physical person, resident of the Republic of Macedonia, is obliged to pay tax on the global income, i.e. the income realized in the country and abroad. A person who is not a resident for income earned from sources within the Republic of Macedonia shall also be considered as taxpayer.

Resident is any physical person having permanent or temporary residence and dwelling on the territory of the Republic of Macedonia, or if he/she stays continuously or intermittently for 183 days or more within 12-month period.

Tax base

Tax base shall be the positive difference from the gross income obtained as a sum of the amounts of individual types of revenues realized by the taxpayers during the year for which the tax is calculated, and the deduction allowed in the Law on Personal Income Tax, such as the following:

- contributions for pension and disability insurance, health insurance and for employment, except for contributions paid by farmers on the basis of their cadastral income;
- the contributions for voluntary pension and disability insurance paid by the taxpayer
- the personal exemption which amounts to denar 3,294 monthly i.e. denar 39,528 annually for 2008
- other expenditures recognized to the taxpayer that he/she incurred during the realization of the income

Tax rate

The 10% tax rate is applied on the calculated tax base commencing 1st January 2008.

Obligatory social contributions

The employers are obliged to pay obligatory social contributions on the gross salary as follows:

- 21.2% - pension and disability insurance contribution
- 9.2% - health insurance contribution
- 1.6% - employment contribution
- 0,5% - additional health contribution
- 0,2% - water contribution

9.7 Value Added Tax

Subject to VAT

Subject to value added tax is the sale of goods and services carried out with compensation in the country by the taxpayer within its business activities and import of goods.

Taxpayer

Taxpayer is legal entity or physical person which conducts business on the territory of the Republic of Macedonia. Only the taxpayers that realized total taxable sales higher than MKD 1.300.000 (including tax) in the previous calendar year are obliged to mandatory register for VAT purposes, excluding the exempt sales, without a right to tax credit deduction. Small business entities are offered an opportunity to choose whether to be registered as VAT taxpayers. If they choose to stay out of the VAT system, they are taxed as final consumers and do not have the right to tax credit deduction.

Tax base

- **1. Tax base for sales in the country**
  VAT base is the total amount of the compensation (money, goods, services etc.) received or to be received for the sales, ncluding the taxes (except VAT), excises, fees, contributions and other charges, as well as the related expenses and subsidies directly related to the value of the sales of goods or services.

- **2. Tax base for import of goods**
  Tax base of import of goods is the value of the imported goods under customs regulations. The tax base includes customs, taxes (except VAT), excises, fees, other import duties and related expenses.

Tax rates

Value added tax is calculated by applying proportional tax rates on the tax base of the taxable sales of goods and services and import, as follows:

- 1. The general tax rate of 18% is applied to all taxable sales and import, except to sales and import taxable with preferential rate, and

- 2. 5% preferential tax rate in applied to the sales and import of the following goods:
  - Food products;
  - Potable water from public water-supply systems and drainage of urban wastewater;
  - Publications, such as: books, pamphlets and similar printed material, newspapers and other periodicals, children's picture books, children's sketch drawing and painting pads, cartographic items of any kind, except for publications mainly used for advertisement purposes, as well as publications with pornographic contents;
  - Seeds and planting materials for production of agricultural crops;
  - Fertilizers;
  - Materials for plant protection;
  - Foils made of plastic mass for usage in the agriculture;
  - Agricultural machines;
  - Pharmaceuticals and medical devices (devices to fit into or replace anatomic part of the body or physiological process, orthopedic devices, devices for removal of anatomic, i.e. functional disorders, as well as wheelchairs);
  - Machines for automatic processing of data and their units (computers);
  - transportation of persons and their accompanying luggage;
  - software for machines for automatic processing of data and their units (computers);
  - Thermal solar systems and components.

Tax exemptions

1. 1. Tax exemptions in the country

Without right to tax credit deduction	With right to tax credit deduction
Sale of residential buildings and apartments, excluding the first sale that will be executed within 5 years from the construction	Export of goods abroad
Rent of apartments, unless they are used for housing purposes	Supply of goods to be transported or dispatched from the country to free zones, customs zones or warehouses;
Postal services	Services related to import, export and transit
Banking and financial transactions	Temporary import of goods for the purpose of their improvement
Insurance and reinsurance services	Sale of gold to the Central Bank
Games of chance and entertainment games	International air transport of passengers
Services rendered by institutions in the area of culture	Sale, maintenance and renting aircrafts used in the international air traffic
Services rendered by institutions for social care and protection	
Services rendered by children and youth institutions	
Educational services	
Services by radio and television broadcasting stations	
International transport of passengers	
Healthcare services	
Transport of patients and sales of human organs, blood and maternal milk	
Services of funeral institutions	

2. Tax exemptions on import

- Goods the sale of which is VAT exempt in the country
- goods which move from one place to another in the transit customs procedure, within the customs area of the Republic of Macedonia
- goods to be entered in a free zone or free warehouse
- goods to be placed in a procedure of customs clearance or customs import procedure for improvement according to the system of deferred payment, under the customs regulations
- goods re-imported in unchanged condition as during their first import
- goods imported by foreign diplomatic or consular representative offices for official needs, as well as by diplomatic personnel, for personal needs
- goods imported by international organizations
- goods to be exhibited on fairs, trade exhibitions or similar events
- items for personal usage entered by passengers from abroad during travel (personal luggage), as well as other items of small value entered by passengers from the country in addition to the items from personal luggage they take in from abroad, not being of commercial nature
- citizens of the Republic of Macedonia and foreign citizens, for medications for personal usage they carry with them or receive them in package from abroad
- citizens of the Republic of Macedonia and foreign citizens that have permanent residence in the Republic of Macedonia for personal items they have inherited abroad
- government bodies or registered humanitarian or charitable organizations for the goods they import free of charge, which are intended for free distribution among the victims of natural disasters or other disasters or for goods that would remain a property of these organizations and that are intended for distribution free of charge among the victims of those disasters
- registered humanitarian organization or charities, for the goods they import free of charge for carrying out their humanitarian activities
- goods imported for examination, research, analysis or testing
- Goods temporarily imported and fully exempt from paying tariff duties in accordance with the terms and the conditions set in the customs regulations.
- goods given as a gift, without any compensation, by foreign donors to domestic public institutions or to registered domestic humanitarian non-profitable and non-governmental organizations
- goods and publications given as a gift to public and scientific institutions
- decorations awarded abroad
- goods received as gifts from foreign donors, as well as imported goods bought with money received as gift to government bodies, municipalities and the city of Skopje and to public legal entities
- goods necessary for implementation of projects financed with funds from foreign donors, on the basis of agreements between the Government of the Republic of Macedonia

Time of occurrence of tax liability

The tax liability occurs at the moment when the sale of good took place, i.e. at the moment when the service is fully rendered.
Should the payment be made prior to the sales, the time when the tax liability occurs is the time when the payment is received.
When importing goods, time of occurrence of the tax liability is the day when the liability for paying customs duty and other import levies occurs or the day of importing the goods in the country, in case of goods exempted from customs duty.

Tax credit deduction

Tax credit is the amount to be reduced from the VAT that should be paid on the performed sales in a certain tax period.
The tax credit refers to the VAT on sales carried out from other taxpayers to the taxpayer and to VAT paid for import of goods.
The right to deduction is exercised only if the taxpayer uses procured or imported goods, i.e. rendered services for the purpose of its business activity.

Exemption of the right to tax credit deduction

- procurement or import of goods and services for VAT exempted sales;
- procurement, production, and import of bicycles, motor vehicles with less than 4 wheels, cars and services related to their utilization;
- Expenditures for presentation;
- expenses for transportation of passengers;
- procurement or import of refrigerators, audio and video appliances, carpets and art works used to equip offices;
- expenses related to hotel or other type of accommodation and food expenses;

Tax period, tax calculation, submission of the tax return, tax payment and refund

Taxpayers calculate and pay the VAT on monthly basis if their total sales subject to taxation exceed MKD 25 million, or on quarterly basis if their total sales subject to taxation are below this amount.

Taxpayers submit their tax returns and pay the reported tax no later than 15 days after the expiry of each month, i.e. quarter.

Voluntarily registered taxpayers calculate the tax for each calendar year, and they submit the tax return no later than 15 days after the expiry of the calendar year when they also pay the tax.

VAT on imports is paid simultaneously with the payment of customs duties.

Public Revenue Office, upon his/her request, refunds the difference within 30 days from the day the tax return was submitted.

VAT refund to special entities

The taxpayers without headquarters or branch office in the Republic of Macedonia that do not perform any sales in the country, are refunded the tax credit paid for the procurements in the country upon their request.
Non-profit organizations are entitled to VAT refund for sales and import of goods transferred abroad, when they are used for humanitarian, charitable or educational purposes.
In case when foreign diplomatic or consular representative office procures goods or uses services for the official purposes in the country, the paid VAT will be refunded for the invoices exceeding the amount of up to MKD 5.000, including the VAT.

International organizations and their members are entitled to VAT refund for sales of goods or services provided for them pursuant to the conditions and limitations stipulated in international agreements.

10 PricewaterhouseCoopers

10.1 General Information

PricewaterhouseCoopers (www.pwc.com) is one of the world's leading providers of professional services. Our aim is to assist clients build value, manage risk and improve performance.

PricewaterhouseCoopers draws on the expertise of more than 146,000 people in over 149 countries and territories.

We provide a full range of business services to leading global, national and local companies and public institutions worldwide.

PricewaterhouseCoopers Skopje

PricewaterhouseCoopers Skopje is an integral part of PwC's commitment to Central and Eastern Europe region and was established in August 1992, one of the first PricewaterhouseCoopers offices in South East Europe.

PricewaterhouseCoopers is the leading professional services firm on the Macedonian market with over 50 employees providing services to the most successful large and medium companies in the country.

With PricewaterhouseCoopers Skopje as your professional services provider you can be assured of the following:

- a respected international name and reputation;
- a highly professional and experienced team of audit and assurance advisors, local and international tax experts and consulting specialists;
- the largest professional services firm in Macedonia;
- several industry specialisms;
- long term client relationships;
- a diverse and well-founded network of clients and contacts.

10.2 Our services include:

Assurance Services

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

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

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

Advisory Services

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

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

Our services:

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

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

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

Tax Services

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

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

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

Expatriate Tax - International Assignment Solutions

- Personal Tax and Social Security
- Immigration Services

Our aim is to assist clients build value, manage risk and improve performance

Office contact details

Emmanuel Koenig Country Managing Partner		
Assurance Services	Advisory Services	Tax Services
Ljube Georgievski ljube.georgievski@mk.pwc.com	Philippe Bozier philippe.bozier@mk.pwc.com	Bob Savic bob.savic@mk.pwc.com

Address

12 Marshal Tito Street
Palata Makedonija IV floor
1000 Skopje
Republic of Macedonia

Telephone: +389 (02) 3111 012
+389 (02) 3110 623
Fax number: +389 (02) 3116 525

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