

Doing Business and Investing in Albania

Guide to Doing Business and Investing in Albania

The purpose of this guide is to assist PwC clients and other parties interested in doing business in Albania. 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 Albania.

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 determining the tax liability in specific circumstances. Professional advice should always be taken before acting on any information in the booklet.

Partner's letter

Welcome to the first publication in the series of guide to “Doing Business and Investing in Albania”



Stefan Weiblen
Country Managing Partner

I am glad to present the 1st edition of our guide “Doing Business and Investing in Albania”. The guide is based on latest legislation and information.

Although it went under a strong shock by the external environment, during 2011, the Albanian economy managed to record growth, consolidate macroeconomic stability and strengthened financial system. The economic activity has grown progressively supported by positive global economy performance and private sector dynamism.

The guide to “Doing Business and Investing in Albania” will be of valuable assistance to domestic and foreign investors or potential investors alike, regardless of the type, size and character of the investment.

It aims at providing comprehensive and up-to-date information on conducting business in Albania. This includes commentary on the latest legal developments, audit and accounting changes, major tax and investment incentives and general economic and business conditions.

Since 2005, PwC has been advising companies and individuals on how to do business in Albania. We draw on our significant experience in the local market, as well as the strength of our international network to help build value, manage risks, and improve the performance of your business in Albania. With 39 highly-qualified and experienced staff, PwC Albania can assist in your business plans from commencement of operations to expansion of business to multi-sector trading and investment enterprises.

A brief guide such as this cannot answer all your questions. However, it will provide you with some valuable insight in the Albanian market and make you better prepared to meet challenges ahead. More detailed advice should be sought to each of our professionals in PwC Audit sh.p.k.

We hope to be of service to you during this exciting period of new opportunities in Albania.

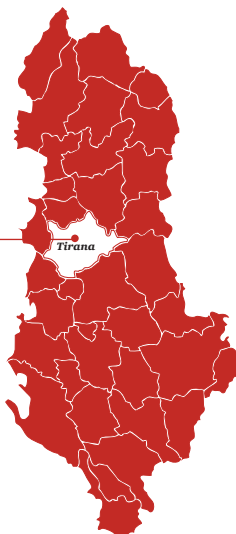
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Investing in Albania – Highlights

Albania presents a number of truly remarkable advantages for potential investors:

- Albania offers positive macroeconomics environment with one of the lowest inflation rates in the region and a stable currency;
- The market in Albania offers skilled human resources making it very competitive in the region;
- Albania has a very favourable geographical position, making it very strategic and attractive. The ports of Durrës and Vlora will soon be among the most important ports in the Balkans and entry points for the 8th Corridor. It has road infrastructure that integrates it into the regional and the European transportation networks;
- Albania has developed a highly-liberalised foreign trade policy and has signed Double Tax Treaties with more than 30 countries;
- Albania is a land rich in natural resource, including oil, gas, coal, iron, copper, chrome, and water/hydroelectric potential.



1 *Albania – a profile*

1.1. Introduction

History

The history of Albania goes back to prehistoric times, from the 4th century BC. The first inhabitants to populate Albania, at the beginning of the Bronze Age, were the Illyrians, an Indo-European people who settled in the Balkan Peninsula. The name Albania (in Albanian: ‘Shqipëri’), derives from one of the Illyrian tribes called “Albanoi” meaning the “Land of Eagles”.

In 395 AD, Albania was occupied by the Byzantine Empire which established an administrative system comprising of military provinces which contributed to the eventual rise of feudalism in Albania.

In 1190 the first Albanian medieval state, the Principality of Arber was founded with Kruja city as the capital. In the middle ages, the name Arbëri began to be increasingly applied to the region now comprising the nation of Albania.

In the late 14th century, with the expansion of the Ottoman Empire towards the Balkans, Albania became a battlefield. For about 25 years, the well-known leader of that time, Gjergj Kastrioti Scanderbeg united the Albanian provinces, leading them in their resistance against the Ottoman army. Following his death in 1468, the Ottomans occupied the country for about five centuries.

Albania proclaimed its independence in 1912 and the present day national borders were sanctioned by a Conference of Ambassadors in 1913.

A short-lived monarchy (1914–1925) was succeeded by an even shorter-lived first Albanian Republic (1925–1928), to be replaced by another monarchy (1928–1939), which was consumed into Fascist Italy during World War II.

Albania finally achieved independence on 29 November 1944, waging a National Liberation War and siding with the allies of World War II first, against Italy and then against Germany.

Thereafter, Albania became a communist state, called Republic of Albania (1946 – 1976) and the Socialist People’s Republic of Albania (1976 – 1991), which, for the most part of its existence, was dominated by Enver Hoxha (d. 1985). It was Ramiz Alia who oversaw the disintegration of the communist state during the wider collapse of the Eastern Bloc in the latter 1980s.

The Republic of Albania was founded in 1991 and the former communist party was routed in elections in March 1992, amid economic collapse and social unrest. Further crises during the 1990s, peaking in the 1997 Financial Pyramid Schemes, led to the mass emigration of Albanians, mostly to Italy, Greece, Switzerland, Germany and North America.

Albania became a full member of NATO in 2009. The country has applied to join the European Union.

Geography and Climate

Albania is located in South East Europe in the west of the Balkans and shares common borders with Macedonia to the

East, Greece to the South and Kosovo and Montenegro to the North. It has access to the Adriatic and Ionian Seas in the west and southwest being less than 72 km away from Italy, across the Adriatic Sea.

The country covers an area of 28,748 sq km. The climate is Mediterranean with dry hot summer and cool rainy winter.

The terrain is mostly mountainous combined with a beautiful coastline and numerous rivers and lakes.

The geographic coordinates of Albania are 41°00'N, 20°00'E. Albania falls within the Central European Time Zone (GMT + 1). Between April and October, it switches to daylight savings time, i.e.GMT+2.

The highest point in Albania is Korabi Mountain (2,751 m). The three large and deep tectonic lakes of the Balkan Peninsula, Lake Ohrid, Prespa Lake and Lake Shkodra, are partly located in Albania. The capital and the largest city is Tirana, with 800,199 inhabitants. The principal cities are Durrës, Korça, Elbasan, Shkodra, Gjirokastra, Vlora and Fier.

1.2. People

Population

Albania has a population of 2,831,741 with a density of 98.5/km2 (327.8/sq m) according to the preliminary Census 2011 results. 53.78% of Albanians live in cities and 46.3% lives in villages.

Main cities in Albania	Population*
Tirana	763,634
Fier	310,989
Elbasan	296,082
Durrës	265,330
Korça	257,530
Vlora	246,016
Berat	211,734
*Including districts	

After the demise of the communist dictatorship regime, Albania experienced a demographic change. Hundreds of thousands of Albanians emigrated to Italy, Greece, the EU and North American countries.

Language

The official language in the Republic of Albania is Albanian. Albanian is an Indo-European language spoken by approximately 7.6 million people, primarily in Albania and Kosovo, but also in other areas of the Balkans, in which there is an Albanian population, including western Macedonia, southern Montenegro, southern Serbia and north-western Greece.

Religion

The Constitution of Albania provides for freedom of religion, and the government respects this right in practice. There have been no reports of societal abuses or discrimination based on religious beliefs or practice.

Albania has been free of religious conflicts, mainly because Albanians have traditionally displayed a high degree of religious tolerance.

Education

The first two levels of education (1-5 and 6-9) are compulsory but most students continue at least until a secondary education.

Most schools are public and financed by the government, but recently several private schools of various levels have been opened. There are about 5000 schools throughout the country. With large population movements in the 1990s to urban areas, the provision of education underwent a transformation. The University of Tirana is the oldest university

in Albania, founded in October 1957. Apart from the State University, there are several private universities offering a wide range of subject specializations.

Living standards

Albania remains a poor country by Western European standards. Its Gross Domestic Product (GDP) per capita of EUR 3,415, stood at 13.6 percent of the EU average in 2011. Still, Albania has shown potential for economic growth, as more and more businesses relocate to Albania and consumer goods become available from emerging market traders as part of the current massive global cost-cutting exercise. The country ranks as one of the countries with the lowest average salary in the region, EUR 333 per month.

1.3. Governing structures

Albania is a Parliamentary Republic. Sovereignty in the Republic of Albania belongs to the people. The Constitution is the highest law in the Republic of Albania, and was adopted by popular referendum on 28 November 1998. The system of government is based on the separation and balancing of the legislative, executive and judicial powers.

The unicameral Parliament represents the legislative branch. The executive branch is represented by the President as the Chief of State, Prime Minister as the Head of Government, and the Council of Ministers. The judicial branch is composed of the Constitutional Court, the Supreme Court and multiple Appeal Courts and District Courts.

The unicameral Parliament consists of 140 seats distributed by a system of proportional election zones lists. All Parliament members serve a four-year term.

The President is the head of state and is elected by a three-fifths majority vote of all Parliament members. The President serves a term of five years with the right to one re-election. Although the position is largely ceremonial, the Constitution does give the President authority to appoint and dismiss from office some civil servants in the executive and judicial branches and to issue decrees. The new elected President is Mr. Bujar Nishani.

The Prime Minister is appointed by the President and approved by the Parliament. The Prime Minister serves as the Chairman of the Council of Ministers, which consists of the Prime Minister, Deputy Prime Minister, and 15 ministers.

1.4. Legal system

The Albanian legal system is based on a system of civil law. All legal acts must be in compliance with the Constitution. International treaties and conventions ratified by Parliament prevail in the event of an inconsistency with Albanian legislation.

Legal acts are issued and approved by the respective organizations as follows:

- Laws are proposed by the Council of Ministers, any member of the Parliament or 20 thousand voters (people), approved by Parliament of the Republic of Albania and proclaimed by the President of the Republic;
- Parliamentary decisions are issued by the Parliament;
- Decrees are issued by the President of the Republic;
- Normative acts, decisions, instructions, regulations and orders are issued by the Council of Ministers;

- Instructions, regulations and orders are issued by each Ministry;
- Court decisions are issued from First Instance Courts, Courts of Appeal, and the Supreme Court. Individuals or legal entities can appeal to the Supreme Court only if they claim that the right for a fair legal trial has been violated. A law, after approved by the Parliament, is promulgated by the President of the Republic, and enters into force 15 days after its publication in the Official Gazette;
- The Constitutional Court which is not part of the ordinary judicial system has a special role and has jurisdiction over the review of the constitutionality of laws and other normative acts. The Constitutional Court guarantees and upholds compliance with the Constitution, which it has the ultimate power to interpret.

Justice system

The court system consists of the Supreme Court, the Appeal Courts, and the District Courts. The Constitutional Court comprises nine members, appointed by the People’s Assembly for a maximum term of 9-years. The Constitutional Court interprets the constitution, determines the constitutionality of laws, and resolves cases of conflicts of competences between local and central authorities. It is not part of the ordinary judicial system.

The First Instance Courts and the Appeal Courts judge cases under three jurisdictions: criminal, civil and administrative. There is also a military section within the structure of the First instance Courts. The Courts of Appeal consist of 6 Appeal Courts and 1 Military Appeal Court. The cases in the Appeal Courts are judged by panels of three

judges. The judges serve 7-year terms. The President of the Republic chairs the High Council of Justice.

A panel of three judges or one judge renders Albanian court verdicts in the name of the Republic; there is no “trial by jury” system in Albania.

High Council of Justice

The High Council of Justice is composed of 15 members: the President of the Republic, who chairs the High Council of Justice, the Chief Justice of the Supreme Court, the Minister of Justice, three members elected by the Assembly, and nine judges from any level in the court system elected by the National Judicial Conference.

The High Council of Justice proposes to the President of the Republic the appointment of judges of the courts of first instance and the courts of appeal, decides on the dismissal of judges of the courts of first instance and the courts of appeal, decides on the transfer of judges, decides on the disciplinary measures taken against judges, and appoints and dismisses the Chiefs and the Deputy Chiefs of the courts of first instance and the courts of appeal.

1.5. Economy

General description

The economy of Albania has undergone a transition from its communist past into an open-market economy in the last two decades. Although the country is rich in natural resources, the economy is mainly bolstered by emigrant annual remittances, services, and the agricultural sector. Albania’s economy has improved substantially over recent years and has outperformed many other countries in the region. During 2011, the GDP real growth rate was 2.7%. According to the International Monetary Fund.

Albania's GDP stood at Euro 9,660 million and Euro 8,748 million in 2011 and 2010, respectively. According to preliminary data from the World Bank's Poverty Assessment Program, 12.4% of the population lived below the poverty line in 2010, marking a considerable improvement from 25.4% in 2000. The official unemployment rate for 2011 is 13.3%, with almost 60% of the workforce employed in the agricultural sector, although the construction and service industries have been expanding recently. Tourism has been boosted significantly by ethnic Albanian tourists from throughout the Balkans.

Why investing in Albania?

Strong economic potential

Albania has a strong economic potential and is the right destination in South Eastern Europe (SEE) for foreign direct investment, because:

- It has a rapidly growing economy at a steady pace associated with a low rate of inflation;
- Albania is a land rich in natural resources (such as chrome, copper, oil, water);
- The market offers skilled human resources at low cost making it very competitive in the region;
- It has very favourable geographical position, making it very strategic and attractive;
- The ports of Durrës and Vlora will soon be among the most important ports in the Balkans and entry points for the 8th Corridor. Albania has a road infrastructure that integrates it into the regional and the European transportation networks;

- Natural resources include significant hydroelectric power potential, large swathes of fertile agricultural land and valuable mining deposits.

Currency

The Albanian official currency is Lek. The currency code for Albanian Lek is ALL.

There are two inter-bank payment systems in Albania both operated by the Bank of Albania (the National Central Bank); a real time gross settlement system (AIPS) and a retail payment system (AECH).

The use of foreign currencies for payment is allowed.

Transport

Albania is situated in the Western Balkans and enjoys a favourable geographic location in South-Eastern Europe. Albania is very close to and related to larger economies such as Greece and Italy – which are its two most important trading partners, hosts of Albanian immigrants and sources of investment.

Albania benefits from a strategic geographical position (Corridor VIII). Instigated by the European Commission (EC), "The Corridor VIII" is one of ten trans-European corridors that connect the Adriatic Sea to the Black Sea. It starts from the Italian ports of Bari and Brindisi and knocks on the door of Durrës in Albania before carrying on through Tirana, Skopje and Sofia, finally arriving in the Black Sea ports of Burgas and Varna. This Corridor has a significant importance for Albania and Macedonia from a geopolitical and geo-economic point of view.

Currently, there are four main highways in Albania: the highway connecting the city of Durrës with Tirana, the one connecting Durrës and Tirana to Shkodra and

Montenegro, the one connecting Durrës with Lushnja and Durrës-Kukes Highway which connects Durrës with Kosovo.

All cities in the country are linked by national roads. Albania has a road network of close to 18,000 km, of which 12,290 km is paved. The country relies heavily on its road network both for transit trade into southern and central Europe and to link its urban and rural dwellers. The development of crucial sectors – from agriculture to tourism – is dependent on the country's transport infrastructure and to this end, a number of key road development projects have been undertaken in the last decade. Road construction continues to be a high priority for the country.

The railways in Albania are administered by the National Railway Company and extend over a network measuring 399 km.

The railway network is mostly obsolete and poorly connected and needs considerable investment. Some trains and railway equipment were damaged during the 1997 unrest in Albania. Carriages currently being used have been obtained second-hand from other European railways and some are in a dilapidated condition. Although the official maximum speed limit is 80 km/h, the actual speed the network bears is 28 km/h.

Ports

With its Adriatic and Ionian coastline and close proximity to North Africa and the Middle East, Albania is strongly positioned as a regional hub for maritime trade; however there is low capacity and also low levels of computerisation in all ports. Albania has four major seaports – Durrës, Vlora, Saranda and Shëngjin, with Durrës accounting for the largest volume of freight – around 75% of the nation's total.

The Port of Durrës is the biggest port of Albania; it is formed between two moles, with a west-north-westerly oriented entrance approximately 183 metres wide as it passes between the ends of the moles. The Port of Durrës has approximately 763 meters of alongside pier space on the West Mole and a fishing harbour lies at the north end of the East Mole.

Aviation

Tourism is Albania's fastest growing sector as increasing numbers of visitors discover what the country has to offer. This positive trend coupled with its growing integration with Europe both politically and financially has necessitated a heavy investment in air transport.

Tirana's Mother Teresa Airport has undergone significant modernisation and expansion in the last decade – with annual passengers increasing from around 700,000 to well over 1 million a year and the number of international air operators increasing from 7 to 18.

Mother Teresa, Tirana International Airport, is the only international airport in Albania, and is operated by a German Company, under a concession to build, operate and transfer granted by the Albanian Government.

Telecommunications

Albtelecom is the biggest operator providing telecommunication services on landline telephony in Albania. It offers local, national and international telephone services for its network subscribers and at the same time it supports and links other telecommunication operators in Albania.

Albtelecom has around 240,000 subscribers, more than a half of whom live in Tirana. In 2007, Albtelecom was

privatised by a Turkish consortium of two companies, Calik Holding and Turk Telekom, with the former holding 80% of the consortium's stake.

Albania's country code is: +355.

Albanian post offices operate throughout Albania providing service both within country and abroad.

Tourism

Tourism in Albania, although still underdeveloped, has witnessed a substantial increase in recent years. Official data show that 2,733,650 tourists entered into Albania in the period from January to December 2011, or 19% higher than in 2010. The total number of tourists was 2,302,899 in 2010, or 29% higher than 2009.

Lonely Planet recently listed Albania as the number 1 choice on its list of top-10 countries to visit for 2011.

In terms of tourism assets, Albania has a very rich natural and cultural heritage, such as:

- **Coastal Tourism** - the Albanian Riviera is one of the most beautiful places of the Mediterranean with a virtually unexploited tourist potential;
- **Mountain & Rural Tourism** - very rich in mountains and traditional characteristic villages;
- **Cultural Tourism** - with around 2000 archaeological /historical sites (fortresses, castles, religious monuments, vernacular architecture) art galleries etc.;
- **Flora & Fauna** - with a great variety of plants and number of rare birds and animals;
- **Outdoor Activities** - with excellent sites

for outdoor sports and activities.

Some of the most visited cities include:

- **Berat**, known as the town of 'a thousand and one' windows and **Gjirokastra**, the city of stone, which are both part of the cultural heritage of UNESCO;
- **Durrës**, known as the old port city of Dyrhachium;
- **Kruja**, the balcony over the Adriatic sea;
- **Tirana**, the capital;
- **Vlora**, the city of sea, olives and grapes;
- **Lezha**, the historic diplomatic capital of Albania;
- **Pogradec**, the poet's city;
- **Saranda**, the honeymooners' city;
- **Shkodra**, the city that is home, among other, to the Rozafa castle.

Over a third of the country is covered with forests while the Albanian territory includes areas that rank at the top of Europe's high biodiversity reserves such as the Karavasta lagoon, Lake of Shkodra, Buna River and Butrinti National Park.

The Albanian coast, which is 316 km long, encompasses two Seas: the Adriatic and the Ionian. The Adriatic coast has long un-populated beaches. Restaurants, ferry lines and ports are nearby. The Ionian coast has an infinite number of small bays offering total privacy. Within a few minutes one can leave the mountains and reach the sea, finding views of rare beauty. Not surprisingly, it's called "The Mediterranean's last pristine beach". Albania has eternally been on borders that have marked empires and eras, while it also embodies cultures, legends and well-known characters. Here we can find the footprints of Aeneas, the wars of Alexander the Great, the campaigns of Epirus and the schools where Roman emperors learned.

Albania is a strikingly beautiful country with a unique culture and a wealth of historical sites.

1.6. Trade

International relations

Albania is currently pursuing a path of greater Euro-Atlantic integration. Its primary long-term goals are to gain EU membership and to promote closer bilateral ties with its neighbours, the EU countries and with the United States. Albania is a member of a number of international organizations, as well as multiple regional organizations and initiatives, including NATO, OSCE, UN, the Stability Pact, the Adriatic Charter and WTO. In June 2006, Albania and the EU signed a Stabilization and Association Agreement (SAA), the first step to EU membership, which focuses on implementing essential rule of law reforms and curbing corruption and organized crime. Albania filed its application for EU candidacy on 28 April 2009 but has not yet been granted candidate status. In November 2010, the European Commission listed conditions still to be met by Albania.

Trade Liberalization in SAA Terms

The interim Free Trade Agreement (FTA) between Albania and the EU guarantees the establishment of a free trade area according to the commitments of Albania under the agreements signed with the World Trade Organization.

Interim Agreement and the First Transition Period

Albania and the EU started to enforce the interim agreement on free trade between Albania and the EU on 1 December 2006. Under this agreement, Albania and the EU

have established an asymmetric approach with regard to the market opening for both industrial and agricultural goods. Thus, Albania has a 5-year period to abolish all the customs tariffs for industrial goods and will apply a more relaxed liberalization in the field of agricultural products, while the EU will ensure a rapid opening of its market for industrial and agricultural goods from Albania. One of the first results of this process is the abolishment of customs duties that are applied on products such as leather used for clothes, cotton, viscose, velvet, sewing accessories.

Interim Agreement and Regional Cooperation

Albania is a party to the FTA between South Eastern European countries as well as to the Central European Free Trade Agreement (CEFTA). The 2006 Interim Agreement on Free Trade between Albania and the EU, CEFTA, will ensure benefits for the Albanian economy by expanding the markets for Albanian products with preferential treatment.

1.7. Energy

Historically, there have been a number of challenges facing the energy sector in Albania, including the lack of primary energy resources, limited production and interconnection capacities and the full dependence for its power production on hydroelectric resources.

Albania imported up to 2.8 billion kWh of electricity in 2008 and 2009, being the highest imported amount of electricity in a single year, over 78% of its total consumption (3.61 billion kWh). Import of electricity (2.5 billion kWh) fell to 69% of total consumption (3.6 billion kWh) in 2010. The sources of energy fell down by 13.6 % in 2011, compared to 2010. The amount of energy produced

and imported reached 7.5 billion KWh. The total production of electricity in the country decreased significantly by 47.4 %, compared to 2010. The total quantity produced is 4.05 KWh and stands for 53.9 % of total energy sources. The imports of electricity had a significant increase in 2011 compared to 2010 by 2.4 billion KWh. The imports of electricity constitute 46.1 % of the total resources in 2011 compared to 11.5 % in 2010.

The Vienna Institute for International Economic Studies predicts that average growth in electricity consumption in Albania will continue by an average 4% per year until 2020.

In 2006 Albania set out a National Energy Strategy (NES) for the period 2006-2020, in order to boost the security of supply through diversification and construction of new generation facilities and inter-connection lines and the use of renewable sources of energy. The implementation of the NES has resulted in an increasing number of concessions being granted in local hydropower plants.

Albania is a mountainous country as 70% of its territory is occupied by mountains, hills, the surfaces of lakes and rivers, with relatively numerous rainfalls. In terms of water resources and hydroelectric power potential, it is ranked among the top countries in Europe. The average height of hydrographical territory is considerable, about 700 meters above sea level.

Investments

The Government of Albania has entered into a concession agreement with a joint venture partnership between EVN AG and Statkraft AS, Austrian and Norwegian companies, respectively, through which the Government of Albania has granted to the joint venture the right to develop

a hydropower project on the Devoll River in Albania. The joint venture company will plan and construct three peak-load hydropower storage plants with a total capacity of approximately 340 MW and an average production of approximately 1.000 GWh. The overall investment will amount to EUR 950 million and the plans should be realized within a time frame of roughly eight years and be finalised in 2016.

A fourth Hydroelectric Power Plant (HPP) will be constructed in Ashta, in the north of Albania. Verbund has reached a 35 year concession agreement with the Government of Albania for the construction and operation of the hydropower plant of Ashta situated on the Drin River in the north of Albania, with a capacity of 53 MW. The total investment will amount to EUR 200 million.

The Government has awarded to Tecnimont a contract for the construction of a new 97 MW, EUR 78 million low-sulphur distillate oil fuelled power plant about six kilometres north of Vlora.

An EU approved study examined the potential to harness the river Drin with five plants. Each of these plants will have an installed power and will produce electricity on average per year as follows:

- Skavica 350,000 kW and 1.5 billion kWh
- Fierza 500,000 kW and 1.8 billion kWh
- Koman 600,000 kW and 2.0 billion kWh
- Vau i Dejes 250,000 kW and 1.0 billion kWh
- Bushat 100,000 kW and 0.4 billion kWh

In the meantime, a feasibility study is being conducted to assess the hydroelectric potential of three of the largest rivers in Albania.

During 2008 the government approved an energy park to be located in Spitalle

Durrës near Porto Romano and there are discussions with Italian companies to build several coal-fired Thermo Power Plants (TPPs) with an installed capacity of 800 MW.

Another important event in the energy sector is the signing of the first agreement with Trans European Energy BV for the project for the construction of the gasification of liquid natural gas in Seman Fier and an undersea gas pipeline linking Albania with Italy.

The Government is also promoting the Trans Adriatic Pipeline (TAP) and Ionian Adriatic Pipeline and their inclusion in the West Balkan pipeline project (part of the Energy Community Ring).

In addition to these large projects, the government has approved several concession contracts for small scale HPPs. By September 2008, the government had approved 27 concession contracts to build small HPPs with a total installed capacity of 125 MW. In total, the government received 120 unsolicited proposals to develop small HPPs.

The World Bank is also sponsoring a feasibility study for HPPs on the Vjosa and Osumi rivers and the government plans to solicit proposals for the exploitation of those rivers.

All of these projects in the energy sector are expected to boost foreign direct investments in the near future and may possibly resolve Albania's chronic electricity problems.

Investments in renewable energy

Albania is implementing the EC Directive 2001/77/EC to promote directly or indirectly Renewable Energy Sources (RES) projects.

Pursuant to the Law No.8987, dated 24 December 2002, "On creating facilitating conditions for the construction of new sources of electricity generation" each investor that builds sources of production of energy with installed power of not less than 5 MW per source and that uses liquid or solid fuels, without restriction for other renewable sources of production, is excluded from payment of customs taxes for the machinery and equipment that are part of the object of the production of energy.

A new draft law for the promotion of Renewable Energy Sources is under discussion.

The Government of Albania also granted a license to Albanian Green Energy to build a Thermo Power Plant using biomass with an installed capacity of 150 MW.

2 Business environment



2.1. Business environment

Both fiscal and monetary policies are focused on the preservation of macroeconomic stability, as a precondition for providing high and sustainable economic growth in the future and a rapid catching up with the average EU welfare levels.

The country's fiscal policy is oriented toward the consolidation of public finances. The main quantitative operational targets of the fiscal policy framework for the medium term (2011-2013), are:

- Public debt ceiling as a ratio to GDP will be 60% for each year from 2011 to 2013.
- Overall fiscal deficit ceiling as a ratio of GDP was 3.1% for 2011, and expected to be 3% of GDP for 2012 and 2013.
- Capital expenditures for each year, 2011 to 2013, will be no less than the overall deficit.

For the period 2011 to 2013, Albania will continue to prioritize public investment allocations to sectors such as education, infrastructure, health care, and agriculture.

The monetary policy objective is to achieve and maintain price stability. The quantitative target of the monetary policy is to achieve an annual change

of Consumer Price Index of 3%, with a tolerance band of +/- 1pp, over the medium term. The annual inflation rate reported for 2011 and 2010 was 3.5% and 3.6% respectively.

Monetary policy will continue to be conducted under a flexible exchange rate regime, where the value of Lek against other foreign currencies is freely determined in the foreign exchange market by its supply and demand.

The projected macroeconomic policy mix, accompanied by structural reforms aimed at increasing competitiveness in several domestic products and services, is expected to reduce the current account deficit to more sustainable levels. The implementation of key structural reforms will continue in the medium-term, supporting the objectives of policy mix. In this regard, further measures will be taken, aimed at improving the legal and regulatory framework for business operations, improving the overall business climate, increasing the competitiveness of domestic products and services, further improving the financial sector, reducing the informal economy, completing reforms of the public administration, and improving conditions in the labour market.

2.2. Technology and industrial zones

In recent years government measures have been introduced through an Information and Communication Technology strategy that aims to bring Albania up to speed in the digital age. Legislation has liberalised the telecommunication industry, bringing it into line with the EU regulatory framework for communications.

In 2007, the National Agency for Information Society (NAIS) was set up, drafting the National Strategy on Information Society and legal framework,

to coordinate ICT related projects within the government and achieve standardisation and provide technical assistance. Aided by UNDP funding, it has initiated major programmes such as the e-schools project. It provides individuals, business and government an interface to the services that are provided electronically by the government, to these stakeholders.

Projects such as these saw the percentage of the population using the internet rise from 2.4% in the middle of the decade to 43.5% in 2010 and to 48% in 2011. At the same time, the growth in SMEs and the influx of foreign companies is fuelling ICT expansion.

With one of Europe's youngest and most multilingual populations (the average age of the Albanian population is 32), the government's long term aim is to develop an IT-literate, knowledge based society increasing its worth as a business destination and a prospective member of the European Union, and bringing opportunity to its people.

Albania is also developing industrial zones through the economic development of industrial cities like Tirana, Durrës, the main port city, and Elbasan, a city which in recent years has become an important location for the development of industrial activities in Albania. Other important industrial zones are located in the north-east of Albania, in places such as Bulqiza, Puka and Kukes, which are rich with mineral resources like chrome, copper etc. During recent years, the government has undertaken a number of incentives to increase the investments in this area through the liberalization of the processes required to enter the market. A large number of concessions have been granted recently to foreign companies which operate in the mining sector in Albania.

3

Foreign investments

3.1. Investment background

All investors, whether foreign or domestic, have the same rights over the ownership of local companies. The total amount of Foreign Direct Investments (FDI) between 2000 and 2010 is estimated to amount to EUR 3 billion. There was a light decline in the FDI during the year 2011 in comparison to 2010, from EUR 793 million to EUR 742 million.

The minimum capital requirement for a business start-up as a limited liability company is only ALL 100 (equivalent of EUR 0.7 and USD 1). Registration of a company is done through the National Registration Centre in Albania by an application at the one-stop-shop. It comprises tax registration at national and municipal levels, labour inspectorate, National Statistics Institute, health and social security. A new electronic system contributes to a simpler and a faster method to register companies and other legal entities, also storing relevant information on them. Moreover, the above registration procedure is performed in a single place and day.

The public procurement system in Albania has developed in the right direction due to the adoption in 2006 of a new Public Procurement Law (PPL). This law takes into account the principles of non-discrimination and equal treatment, transparency, and legal protection of interests of bidders on public contracts.

With effect from 1 January 2008, Albania implemented a 10 % flat-tax system, being

one of the lowest in Europe. The latter reform is one of the biggest steps towards the common objective of Albanians to improve the business climate in order to make Albania an easier place to invest. Albania has signed Double Tax Treaty (DTT) agreements with 37 countries out of which 33 are currently in force.

3.2. Investment incentives

According to the Albanian Law 'On foreign investments' foreign investors willing to operate their business in Albania will benefit, among other things, from the following:

- No prior government authorization is needed and no sector is closed to foreign investment;
- There is no limitation on the share of foreign participation in companies - 100 percent foreign ownership is possible;
- Foreign investment may not be expropriated or nationalized directly or indirectly, except for designated special cases, in the interest of public use and as defined by law.

Foreign individuals cannot purchase agricultural land in Albania; on the other hand they have the right to lease agricultural land for up to 99 years. There are no restrictions on other types of land. Other incentives are a flat corporate and personal income tax rate of 10% and a cost-productive (flexible) workforce.

Foreign investors have the right to transfer,

outside the territory of the Republic of Albania all funds and contributions in kind related to a foreign investment, including:

- revenues;
- compensations;
- payments deriving from an investment dispute;
- payments made pursuant to a contract, including loan and interest payments made according to a loan agreement;
- proceeds deriving from the sale or the partial or complete liquidation of an investment;
- dividends deriving from the reduction of the capital of the company in accordance with Albanian legislation.

A so called ‘Special protection for foreign investments in Albania’ is granted to all foreign investments that exceed or are expected to exceed the value of EUR 10 million. This protection sets out that the foreign investor is substituted in the judiciary process by the Albanian state. Once this special state protection is granted, any injunction order issued by the court shall be executed over state properties. This special state protection is granted until 31 December 2014.

The “Albania 1 Euro” initiative, aims to grant entry into the market for literally one Euro. This initiative focuses on offering state-owned properties (assets, natural resources, economic activities, fees for public services, etc.) for a fee of one euro to qualified investors. Concessions for socially indispensable services such as health service, education, water and waste disposal, infrastructure, energy and raw material production - are also included in this initiative.

4 *Banking and finance*



4.1. The banking system

The banking system in Albania comprises the Bank of Albania (the Central Bank), as the only first tier bank, with second level banks, being the commercial banks. It also comprises the Deposits Insurance Agency, which is a state owned insurance agency, which insures savings deposits in Lek and foreign currency that are not used for commercial purposes. Deposits, to the extent that they exceed the amount of ALL 2.5 million (EUR 17,730) are not insured.

As at the end of June 2012, 16 second-level banks operated in the banking market. International banking and finance groups such as Raiffeisen International, Calik Holding, Intesa SanPaolo, Piraeus Bank, Alpha Bank, National Bank of Greece, ProCredit Holding, Credit Agricole, Societe Generale, Veneto Banca Holding, and First Investment Bank are all present in the Albanian banking market.

Following is a complete list of the banks operating in Albania:

No.	Bank Name
1	Alpha Bank
2	Credins Bank
3	Credit Bank of Albania
4	Emporiki Bank Albania
5	First Investment Bank Albania
6	International Commercial Bank
7	Intesa Sanpaolo Bank Albania
8	National Bank of Greece
9	Banka Kombëtare Tregtare
10	ProCredit Bank
11	Raiffeisen Bank
12	Societe Generale Bank Albania
13	Tirana Bank
14	Union Bank
15	United Bank of Albania
16	Veneto Banka

The four Largest Bank as at March 2012 are Raiffeisen Bank (RZB International AG, Austria), Banka Kombetare Tregtare (Calik Holding, Turkey), Intesa SanPaolo Bank Albania (ISP Italy), and Tirana Bank (Piraeus Bank SA, Greece). Their assets weighting to the overall banking system assets is more than 65%, whereas their deposits weighting to the overall banking system deposits is more than 50%.

4.2 Performance

The market structure of the Albanian Banking Sector has changed significantly in recent years. During the 1990s, Albania experienced deregulation, penetration by foreign banks in the market, and an accelerated process of consolidation and competition in the banking sector. The situation worsened in 1997 by the pyramid schemes which led to a lack of confidence in the banking system and a local financial crisis.

Since then, the regulatory authorities have strengthened supervisory monitoring, moving towards well developed risk-based supervision and depositor’s confidence has been restored.

The situation is fully stabilised since 1999. As at the end of 2011, the Albanian financial system and banking sector were

assessed as being stable. The banking sector’s activity has expanded further and its contribution to the Albanian economy has increased. Profit indicators have improved relative to the previous period. The capitalization and operating liquidity position is good. The Banking system has possessed the necessary liquidity and offered the adequate capital to support the economic activity in Albania. The need to improve loan quality remains the main challenge facing the banking sector.

The banking sector’s share in the national GDP as at the end of 2011 is 85%, compared to 81% in 2010. The Banking sector’s assets amounted to ALL 1,120 billion. The annual growth rate of loans was 15.35% in 2011 (2010:9.1%), out of which about 10.4% represents the growth rate of business loans. Banking sector deposits rose to ALL 910 billion in 2011 (2010: 805 billion). The

positive performance of the banking sector is also due to the smooth operation of the payment systems infrastructure. Deposits growth has remained elevated at around 13% during 2011. This positive trend enabled a liquid banking system that easily sustained the roll-over of domestic public debt.

Liquid assets accounted for 29.9% of total banking sector assets. At the sector level, the Capital Adequacy Ratio increased slightly to 15.6% in 2011 compared to 15.4% in 2010 (the minimum required is 12%). Although the banking sector's profit was positive at ALL 0.71 billion in 2011, it was lower than in 2010 of ALL 6.7 billion as a result of a greater decrease of the return from assets relative to the decrease rate of financing these assets. The annualized return on assets was 0.07%, and annualized return on equity was 0.76% in 2011.

4.4 Insurance market

Insurance companies are regulated by the Albanian Financial and Supervisory Authority. Seven companies operate exclusively in the non-life segment.

	<i>Company name</i>	<i>Parent Company</i>
	<i>Non-life</i>	
1	Sigal Uniqa Group Austria	Uniqa Group Austria
2	Sigma Vienna Insurance Group	Vienna Insurance Group
3	Interalbanian	Vienna Insurance Group
4	Intersig	Vienna Insurance Group
5	Atlantik	Local ownership
6	Albsig	Local ownership
7	Eurosig	Local ownership
8	Ansig	Local ownership
	<i>Life</i>	
9	Sigal Life Uniqa Group Austria	Uniqa Group Austria
10	Sicred	Local ownership
	<i>Non-life and life</i>	
11	Insig	State owned

4.3 Central Bank

The Bank of Albania is the supervisory authority for banks, branches of foreign banks and non-bank financial institutions. It carries out its supervisory role, pursuant to the Law "On banks in the Republic of Albania", through licensing, the issuing of bylaws, conducting financial analyses of financial data received periodically, on-site inspections, corrective actions and cooperation agreements with their supervisory authorities abroad. Concerning the assessment of risks facing the banking sector, the Bank of Albania conducts periodic stress tests in order to assess the resilience of the banking sector to possible adverse economic developments in several macroeconomic and financial indicators, on an individual or combined basis.

During 2011, several new regulations were introduced as well as amendments made to other regulations related to banking supervision.

Two companies operate exclusively in the life segment and the state run “Insig” provides both life and non-life insurance services.

Uniqa Group Austria and Vienna Insurance Group are the international insurance companies that lead the insurance market in Albania through their ownership in SIGAL, SIGMA, Interalbanian and recently Intersig.

Substantial improvements have been made in efforts to increase the effectiveness of the supervision of the insurance sector. The legal framework has been strengthened with the approval of primary legislation broadly in line with EU requirements.

The insurance market in Albania has been mainly oriented towards compulsory insurance, which constituted the major percentage of total premiums. However during 2011, for the first time voluntary insurance dominated against compulsory by constituting 55.3% of the total premiums compared to 44.7% of compulsory insurance. Voluntary insurance represents 54.98% of total premiums compared to 45.02% of compulsory insurance as of 31 May 2012.

Life insurance accounts for 11.25% of the total gross written premiums in the Albanian insurance market as of 31 May 2012 (2011: 12.75%). Debtor’s life insurance accounts for 66 % (2010: 65.9%) of the life insurance market’s gross written premiums, followed by Group life insurance at 17% (2010: 8.7%) during the year 2011.

Non-life insurance accounts for 88.63% of total gross written premiums as at 31 May 2012 (2011: 87%). Compulsory motor, third party liability, insurance accounts for 51.89% of non-life insurance gross written

premiums (2011: 60%).

Property insurance accounts for 28.04% of non-life insurance gross written premiums as at 31 May 2012 (2011: 17%) followed by health insurance of 20.07 % (2011: 12 %).

Despite its relatively quick development, the insurance sector suffers from aggressive competition, governance issues and lack of experience in financial reporting, etc.

Supervision authority

The Albanian Financial Supervisory Authority (AFSA) is a public independent institution. The AFSA is responsible for the regulation and supervision of the non-banking financial system in general, and the operations of the insurance sector in particular. The AFSA reports to the Albanian Parliament. The main areas of its activities fall under the following: insurance market and its operators; securities market and its operators; private supplementary pensions market and its operators; other non-banking financial activities, with the exception of leasing companies and non-bank financial institutions.

Latest developments

The adoption of IFRS in the insurance market, as well as the expected adoption from the European Union of the new regulatory regime, Solvency II, creates substantial challenges to the sector’s operation and its supervision. The quick adoption by the market of the two new standards, IFRS Phase II and Solvency II, is a priority of the Financial Supervisory Authority.

4.5 Leasing companies

The Law “On financial leasing” was enacted in 2005. There are seven leasing companies operating currently in Albania. Four of them are part of international groups such as Raiffeisen International, Piraeus Bank, EELF, and Societe Generale.

	<i>Company name</i>	<i>Parent Company</i>
1	Raiffeisen Leasing	Raiffeisen Bank sh.a.
2	Tirana Leasing	Piraeus Bank SA
3	Landeslease	Emerging Europe Leasing and Finance
4	SocieLease Albania	Societe Generale Albania
5	Credins Leasing	Owned by local entrepreneurs
6	BI Leasing	Owned by local entrepreneurs
7	Star leasing	Owned by local entrepreneurs

4.6 Stock exchange

Tirana Stock Exchange has been established since 2002. The Stock Exchange is not operational. It has only five participants of which three are local banks.

An important part of the activity of the Tirana Stock Exchange is dedicated to cooperation with important domestic and foreign institutions, in order to develop the capital market, including cooperation with IFC. IFC is expected to provide technical assistance to the Tirana Stock Exchange, training its staff, as well as helping with various activities for business information about governance and capital markets.

5

Import and export

5.1 Foreign trade regime and major regulations

Albanian foreign trade has been liberalized since 1990 and follows guidelines set by the European Union. As a result of the ongoing process of harmonization of the Albanian customs regulations with the EU system, imports and exports of commodities are not generally subject to special authorization requirements. Exceptions apply to quotas or control requirements imposed through different bilateral or multilateral agreements signed by Albania. Licenses are required for specific commodities with restricted circulation within the country (such as military or strategic goods, radioactive materials and psychotropic substances). Licences can be obtained from the Ministry of Defence (for military or strategic commodities), Ministry of Health (for drugs and psychotropic substances).

Exports are not subject to any export taxes, fees or other barriers with a similar effect. Most imports of goods from the European Union are tax free. All imports are subject to VAT and some items, such as tobacco, alcoholic beverages and fuel are also subject to an excise tax.

Albania applies WTO rules on import licensing, e.g. to products affecting life, health and the environment. Since 1 October 1999, Albanian exports to EU countries have benefited from the asymmetric regime in the form of autonomous measures. The regime is applicable both to agricultural and industrial goods.

5.2 Customs regime

The General Directorate of Customs (GDC) is the institution responsible for the management of customs in the Republic of Albania. GDC is subordinate to the Ministry of Finance and conducts its activity pursuant to the Law No. 8449 of 27 January 1999 “On Customs Code of the Republic of Albania” and its respective by-laws. The Albanian Customs Code is designed based on the Instruction of the Council of Europe EEC No.2913/92 of 12 October 1992.

Albania is member of the World Customs Organization since August 1992. In January 1985, Albania became a party to the TIR (Transport International Routier) Convention of the United Nations. Albanian Customs also adheres to the Johannesburg Convention “On mutual administrative assistance on customs matters” and Nairobi Convention “On mutual administrative assistance on the prevention, investigation and percussion of custom rules violations”. Bilateral agreements on customs assistance have been also signed with several European countries.

Customs Tariffs

Custom tariffs are applied to all goods specified in the nomenclature based on the Harmonized System (HS) of the World Customs Organisation (WCO) as well as any other nomenclature which is wholly or partly based on the HS.

Tariff levels applied by the Albanian Customs vary according to the type of

goods and country of origination and range from 0% to 15%.

Customs tariffs include:

- The rates and other charges normally applicable on goods covered by the nomenclature based on the HS.
- The Preferential Tariff Measures contained in agreements which the Republic of Albania concludes with certain countries which provide for granting of preferential tariff treatment.
- Autonomous suspense measures providing for a reduction or relief from import duties chargeable on certain goods (preferential tariff treatment).
- Other tariff measures provided for in the framework of the Albanian trade policy.

Custom tariffs in the Republic of Albania are subject to frequent amendments aimed at the reduction of tariff levels according to the requirements of the WTO.

Albanian preferential tariffs and quotas apply to products originating in the European Union, Turkey, CEFTA-2006 and EFTA.

6

Business entities



6.1 Company registration

Foreigners enjoy the right to engage in economic activities in Albania without the need to request permission or authorization. The Albanian legislation provides that in all cases and at all times, foreign investments shall receive fair and equitable treatment and shall enjoy full protection and security.

No sector in Albania is closed to foreign investors and there are no legal barriers to market entry. The National Registration Center of Businesses provides a “one-stop-shop” solution for business registration. The NRC serves as

a single “window” for all types of business entities throughout Albania to perform and apply for all business registration-related processes, including tax registration at national and municipal levels, health and social security, labour inspectorate and the National Statistics Institute. E- Procurement, E-taxes, simplification of taxes and simplification of licensing procedures are the major elements of the Government of Albania business reform.

In order to attract FDIs, the Government of Albania has developed a range of incentives for investors and has applied a set of liberal fiscal policies.

6.2 Forms of business entities

The Law No. 9901, “On Entrepreneurs and Companies” shall regulate the status of entrepreneurs, the founding and managing of companies, the rights and obligations of founders, partners, members, and shareholders, companies’ reorganization and liquidation. Companies are founded as general partnerships, limited partnerships, limited liability companies or joint-stock companies. The registration requirements are standardized based on the law on National Registration Center (NRC).

Companies are founded by two or more persons, who agree on achieving joint economic objectives through contributions defined by the Statute. Limited liability companies and joint stock companies may also be founded by one person only (single member company).

The Law No. 9901 does not apply to non-profit organisations to which the Law No. 8788 “For the non profit organization” applies.

6.2.1 General Partnerships

A company is a general partnership if it is registered as such, conducts its business under a common name and the liability of partners towards creditors is unlimited.

Contributions

The initial contribution of partners may be in cash or in kind (property, rights, labour and services). Partners’ contributions shall be equal. The partners in a general partnership shall evaluate any contribution in kind by mutual agreement and express its value in money. If no agreement can be reached, any partner may request the competent court to appoint by a binding decision an evaluation expert. The

partners’ or the expert’s report on the evaluation shall be submitted to the NRC with the other data required.

Management

All partners shall have the right to manage the business of the partnership as Managing Directors. If the Statute has assigned management to one or several partners, the other partners are excluded from management.

Liability

Partners are personally and jointly liable for the obligations of the general partnership without limitations including even their own property.

6.2.2 Limited Partnerships

A partnership is a limited partnership, if at least one partner’s liability is limited to the amount of his contribution (limited partner), while the liability of other partners is unlimited (general partners). General partners have the status of partners in a general partnership.

Management

One or more general partners are entitled to manage the business activity of the limited partnership as Managing Partners. Limited partners are excluded from management. A limited partner cannot object to the management activities of the general partner, unless these actions go beyond the ordinary activities of the company’s business.

Liability of Limited Partners

Up to the outstanding amount of his contribution, the limited partner shall be personally liable to the creditors of the limited partnership. As far as the contribution has been paid further, liability is excluded.

An increase of the registered contribution not registered at NRC, only has effect as against creditors if the company informed them about the increase or if it has been published in the newspapers or other normal information sources.

Any agreement of the partners releasing a limited partner from paying his contribution or postponing the payment is ineffective as against creditors.

6.2.3 Limited Liability Companies (sh.p.k)

A limited liability company is a company founded by one or more individuals or entities, who are the shareholders of the company and who are not liable for the company's commitments and which personally bear losses only to the extent of any unpaid parts of stipulated contributions. Members' contributions constitute the company's basic capital. Each member shall acquire his share in the company in proportion to his contribution. The basic capital is divided between members accordingly. If the company is founded by an individual, he/she is called "sole partner". The limited liability company has a name that can include the name of one or more of the partners preceded by or immediately followed by the words "Shoqëri me Përgjegjësi të Kufizuara" or the initials "sh.p.k.", as well as the amount of the statutory capital.

Limited liability companies may not offer their shares to the public. Legal relations between members may be freely designed in the Statute unless the law provides otherwise.

Basic capital

According to the current law, the minimum value of capital for this type of company is ALL 100. The capital is divided in equal

shares. Otherwise, the company should be transformed into another form.

Transformation into a sole partner company

When the number of partners decreases to one, the sole partner shall register the decrease and his name in accordance with Art. 43 of the Law on the National Registration Centre. Article 43 specifies that it is obligatory to notify the NRC of any changes to the statute of the company, or any other founding act, within 30 days from the moment that the change happens. If the sole partner fails to do so, he shall be personally liable for the commitments the company assumes in the meantime and also a penalty of ALL 15,000 (equivalent of EUR 110) will be applied.

Co-Ownership of shares

- A share acquired on the basis of a contribution may belong to one or several persons.
- If a share belongs to several persons, these persons shall be regarded as one member in relation to the company and they shall exercise their rights through a common representative. They are, however, jointly and severally liable for the commitments of membership.
- Several members owning one share may agree that they own this share in equal or different parts.
- The company's actions in relation to the share will have effect as against all owners even if it was addressed to only one of them.
- The company may issue a certificate in order to prove the ownership of the share. Such certificate shall not have the character of a security. The certificate shall be issued in the name of the members concerned.

6.2.4 Joint-Stock Companies (sh.a)

A Joint Stock Company is a company the basic capital of which is divided into shares and subscribed by founders. Founders can be individuals or entities, which are not liable for the company's commitments and which bear losses only to the extent of their unpaid value of the issued shares in the basic capital. The company can be established by and can have one or more partners.

Basic capital

- The basic capital of a Joint Stock Company with private offer shall not be less than ALL 3,500.000.
- The basic capital of a Joint Stock Company with public offer shall not be less than ALL 10,000.000.

Types of contribution

Shareholders' contributions may consist of cash or property and rights valued in money. They may not consist of labour or services.

Par value and issuance of shares

- Each share shall have a minimum par value;
- Shares may not be issued before the registration of the company with the NRC;
- Shares issued earlier are invalid. The founders are jointly and severally liable as against the holders for any damage caused by such issuing;
- The rights connected with the shares cannot be transferred before registration of the company with the NRC.

Establishment costs

The founders may request the company to reimburse formation costs up to the highest amount set for formation costs by the Statute. Foundation costs are paid from profits generated by the company. Shareholders may decide to give them priority when profits are distributed, unless otherwise provided by the Statute.

6.2.5 Representative offices

Foreign companies may open their representative offices in Albania to carry out non-income generating and non-commercial activities. Representative offices are not legal entities and therefore cannot conduct commercial activities in Albania. Foreign investors still use representative offices if their presence in Albania only consists of promoting the activity of one of their foreign group companies in Albania.

6.2.6 Branches of foreign legal entities

Branches of foreign legal entities can be registered to conduct commercial activities in Albania. A branch is subject to corporate profit tax in the same manner as other Albanian companies but there is currently no branch remittance tax in Albania. The foreign Company shall be liable with its entire assets for the liabilities arising out of its branch's operations.

Foreign investors rarely choose branches for their investments, unless they plan for a temporary presence in Albania, or if investors decide not to legally separate the Albanian entity from the parent company.

6.3 Regulatory environment

6.3.1 *Competition law*

The purpose of this law is to establish rules for market-operators, their rights and obligations in circumstances of fair competition.

The law is applicable for all entities that exercise commercial, financial and production activities in the territory of the Republic of Albania as well as to entities that exercise activities abroad, when the consequences of this activity are demonstrated in the home market.

This law is applied to all individuals or entities, native or foreigners, private or state, that exercise commercial, financial and production activity, based on free competition, which supply or demand goods, the acquisition or consumption of which is subject to their free will and initiative.

7

Labour relations

7.1 Labour

The most immediate impact of the radical economic reforms in post-communist Albania was a sudden increase in unemployment. The privatization of former government-owned establishments resulted in a period of turbulence in the labour market, affecting both the demand and supply of labour. Further, population movements both abroad (to as many as twenty different countries) and within the country (from rural areas to major cities) changed the composition of the local labour force and placed additional strains on both the domestic and foreign labour markets. Industries required skills that were scarce in the Albanian labour market.

The unemployment rate in Albania decreased from 16.40% in 2000 to 13.80% in 2009. In 2010 the unemployment rate was 13.49 %, while in 2011 it decreased to 13.3%.

7.2 Employment contracts

Employment contracts are regulated by the Labour Code of the Republic of Albania. One of the principles of the Labour Code is that the employment contract should be regulated by the law of the country where the employee usually carries out the job, even if he/she is temporarily assigned to perform the job out of his/ her normal place of business or in another country.

7.3 Public holidays

Below are listed the National Holidays in the Republic of Albania:

Calendar Day	National Holidays
January 1 and 2	New Year's Day
March 14	Summer Day
March 22	Nevruz Day
Variable date*	Catholic Easter
Variable date*	Orthodox Easter
May 1	Labor Day
Variable date**	Eid al-Fitr (End of Ramadan)
October 19	Mother Teresa Beatification Day
Variable date**	Eid al-Adha (Feast of Sacrifice)
November 28	Independence Day
November 29	Liberation Day
December 8	National Youth Day
December 25	Christmas Day

* *Note: The Catholic and Orthodox Easter holidays may be subject to changes each year.*

** *Note: The Eid al-Fitr and Eid al-Adha holidays may be subject to changes according to the lunar calendar.*

7.4 Employment of Foreigners

Visas

Foreign citizens may enter in the territory of Albania with or without visa (depending on the nationality).

Residence permit

Foreign citizens staying in Albania for more than 90 consecutive days from their last entry into the territory of Albania, are

required to obtain a residence permit. The Ministry of Internal Affairs and the Council of Ministers decide on the standard form of residents permit, the procedures for acquiring, renewal and refusal of a residence permit, and the documentation necessary to support the application. Application forms can be obtained from the migration offices at regional directorates of border and migration in the territory where the foreigner resides at the time of application. Residence permits can be granted for: 3 months, 6 months, one year, two years or permanently.

A foreign individual can apply for a permanent residence permit if he/she has had a legal stay of five consecutive years in the Republic of Albania, and he/she continues to have a connection with or activity in Albania.

Work permit

As a general rule foreign citizens working in Albania for a period greater than one month, are required to obtain a work permit issued by the Ministry of Labour and Social Affairs.

The Ministry of Labour and Social Affairs and the Council of the Ministers decide on the forms of the work permits, procedures for acquiring, renewal and refusal of the work permits, and the documentation to be submitted in support of the work permit application. The application forms can be obtained at the Migration Department in the Ministry of Labour and Social Affairs, in Albanian embassies and consulates abroad, and in the regional labour offices of the respective districts.

The timeframe for issuance or refusal of a work permit is not longer than 30 days from the date of application, by the relevant authority. In specific cases, as foreseen by the law, this timeframe increases up to 40 days.

Foreign driving license

Foreign citizens holding a national driving licence or an international driving licence are not required to apply for and obtain a local driving licence, provided that they reside in Albania for a period of not more than one year.

In addition, foreign nationals holding a driving licence issued by one of the member countries of the European Union and who have obtained a residency permit in Albania are entitled to apply for and obtain an Albanian driving license by submitting a request to the competent authorities in Albania.

Lastly, foreign vehicles are allowed to circulate in the territory of Albania for a maximum period of one year using the foreign circulation permit.

8

Taxation



8.1 Profit Tax

8.1.1 Corporate income tax

Corporate Income Tax (CIT) is paid by all Albanian entities on the profit realised in the territory of Albania and /or abroad.

The taxable period for CIT purposes runs from 1 January until 31 December of each calendar year.

8.1.2 Tax rate

The current CIT rate in Albania is a flat rate of 10%. CIT is self-assessed by the taxpayer by adjusting the accounting profit for all items of taxable income and non-deductible expenses.

8.1.3 Taxable persons

Taxable persons for CIT purposes, are considered all juridical persons, partnerships and branches of foreign entities which are registered for VAT purposes, provided that they are not subject to the small business tax.

8.1.4 Exemptions

The following entities are exempt from CIT:

- Central and Local Government Bodies and the Central Bank of Albania;
- Legal entities which conduct religious, humanitarian, charitable, scientific or educational activities;

- Trade unions or chambers of commerce, industry or agriculture;
- International organizations, agencies for technical cooperation and their representatives, the tax exemptions of which are established by specific agreements;
- Foundations or non-banking financial institutions established to support the development policies of the government through credit activities;
- Film studios and cinematographic productions (among other types of entity/activity) that are licensed and funded by the National Cinematographic Centre.
- Personal living expenses and family expenses;
- Loan interest exceeding the 12-months average interest rate in the banking sector as published by the Central Bank of Albania;
- Increases of capital;
- Deductible personal income tax, excise duties, profit tax, and VAT;
- Expenses for technical services, consultancy and management, received from foreign entities which are not registered for tax purposes in Albania, for which no withholding tax has been paid by 31 December, at the latest;

8.1.5 Taxable base

Taxable profit will be determined by the accounting profit adjusted for tax purposes with non-deductible expenses. The Albanian legislation defines the following specific costs as non-deductible:

- The interest paid on outstanding loans and prepayments, which exceeds four times the amount of the net assets;
- Benefits in kind and gifts;
- Distribution of dividends and profit shares;
- Fines and other tax-related sanctions;
- Wages, bonuses and any other form of income deriving from an employment relationship and paid to the employees in cash;
- Payments made in cash of amounts exceeding ALL 300,000;
- Provisions and reserves (with some exemptions applicable to the financial sector);
- Losses, damages, wastage incurred during production, transiting or warehousing, exceeding the norms defined by laws and related instructions;
- Depreciation and amortisation calculated at rates exceeding the tax depreciation rates;
- Impairment losses on fixed assets;
- Representation expenses that exceed 0.3 % of annual turnover;
- Sponsorships exceeding 3% of profit before tax, and sponsorships of press and other publications exceeding 5% of profit before tax.

Bad debts are only deductible if all of the following conditions have been met:

- An amount corresponding to the bad debt has been already included in the taxable income;
- The bad debt is written off and removed from the taxpayer's accounting books;

- All possible legal action to recover the debt has been taken.

8.1.6 Permanent establishment

A permanent establishment (PE) shall imply a fixed place of business through which the business activity of an enterprise is wholly or partly carried out either directly or through a dependent agent or more specifically a PE could include an administrative office, a branch, a factory, a workshop, a mine or any other place for exploitation of natural resources, as well as a building, reconstruction, installation or assembling site.

The Albanian law provides for no minimum period of time in relation to a PE, whereas the respective Double Tax Treaties (Treaties for Avoidance of Double Taxation of Capital and Income) provide for different minimum periods. The provisions of the Double Tax Treaties prevail over local income tax law.

8.1.7 Capital gains

Capital gains are treated as ordinary taxable income.

8.1.8 Dividends

Dividends and other profit distributions received from Albanian entities, as well as foreign entities subject to CIT, are exempted from CIT in Albania.

8.1.9 Fiscal losses

Fiscal losses may be carried forward for up to three consecutive years. However, losses may not be carried forward if more than 25% of direct or indirect ownership of the share capital or voting rights of the company is transferred during the tax year.

8.1.10 Transfer pricing

Any transaction concluded between related parties shall be determined at arm's length. Transfer pricing adjustments may be made if the conditions set in a transaction between related parties differ from those that would have been set if the parties were independent.

In particular, the following are regarded as related parties:

- A legal entity and any person that owns, directly or indirectly, at least 50 % of the shares or voting rights in that entity;
- Two or more legal entities if a third person owns, directly or indirectly, at least 50 % of the shares or voting rights in each entity.

8.1.11 Bankruptcy

The Albanian tax authorities are obliged to request the initiation of bankruptcy procedures for a taxpayer upon fulfilment of one of the below conditions:

- After 2 years the taxpayer maintains in a passive status;
- If a taxpayer declares negative net equity for at least three consecutive years;
- Performs no business activities for 2 years;
- Results in unsettled tax liabilities for at least 2 years.

8.1.12 Filing requirements

The final tax return for CIT is due by 31st March of the following year. Predetermined advance payments of CIT are due by the 15th day of each month.

Companies should decide on the use of their prior year net profits within the

first six months of the following year and submit their decision to the tax authorities no later than 31st July.

The decision on the use of the company's prior fiscal year after-tax profit should be submitted to the NRC within 30 days of the decision date.

Companies have an obligation to pay tax on dividends to the tax authorities no later than 31 July of the year in which the dividend is approved, regardless of whether or not the dividend has been paid to the shareholders.

8.2 Personal Taxation

8.2.1 Personal income tax

Personal income tax is paid by individuals on the overall income they earn from various sources in Albania and abroad during a calendar year, excluding the exempt income.

8.2.2 Tax rate

The following tax rates apply to income generated from employment:

Income brackets (in ALL)	Income tax (in ALL)
0 up to 10,000	0%
10,001 – 30,000	10% for the amount above 10,000
above 30,000	10% of the total amount

The minimum monthly salary in Albania is ALL 21,000 effective from 1 July 2012.

8.2.3 Taxable persons

Individual taxpayers, both residents and non-residents, are subject to personal income tax. Albanian law applies the principle of world-wide taxation. Resident

individuals are taxed on all sources of income in and outside the territory of Albania, while non-resident individuals are taxed on income generated only in the territory of Albania.

An individual is deemed to be a resident of Albania if he has a permanent home in Albania or if he stays in Albania, either consecutively or intermittently, for more than 183 days in a calendar year irrespective of his citizenship or living interests. However, the provisions of the Double Tax Treaties prevail over the local legislation.

8.2.4 Taxable base

The following categories are subject to income tax:

- Salaries and other remuneration in connection with current employment;
- Dividends and profit shares of partnerships;
- Interest (except interest received on treasury bonds and other securities issued by the government before 21 January 1999);
- License fees and other royalties;
- Rental income;
- Proceeds from the transfer of immovable property;
- Income from copyright and intellectual property;
- Gross income from lottery or other games of chance;
- Capital gains resulting from investment in securities or immovable property;
- Incomes from donations;
- Gross income realised outside the territory of the Republic of Albania;

- Other gross income not mentioned above.

Resident individuals with annual income of less than ALL 800,000 are entitled to some deductions, based on the limits provided in the legislation.

The following are exempted from personal income tax:

- Income arising from obligatory insurance under an obligatory social and health insurance scheme as well as economic benefits for individuals without income or with low income, as set out in the relevant legislation in force;
- Fellowships of pupils and students;
- Benefits received in the case of diseases and hardships in agreement with the relevant legal provisions in force;
- Benefits, both monetary and/or in kind, given by the owners as a bonus for expropriation made by the state for public interests;
- Income which is exempted on the basis of international agreements ratified by the Parliament of Albania;
- Interest received on treasury bonds and other securities issued by the government before 21 January 1999;
- Contributions paid by employers for the life and health insurance of its employees;
- Compensation and bonuses arising from the employment of foreign individuals with diplomatic status as per the provisions of international conventions signed by the Albanian Government.

8.2.5 Filing requirements

Private individuals resident in the Republic of Albania and non-residents who generate income sourced in the territory of the Republic of Albania are now required to submit an annual income declaration at the central tax administration.

An individual is required to submit an annual income declaration at the central tax administration, not later than 30 April of the year following the tax period for which the declaration is made.

The tax paid during the year will be deducted from the amount of tax calculated as per law. In the event that the individual declaration results in a tax liability, he/she should make the payment of the tax due within 30 days from the day of the submission of the annual income declaration.

Individuals who generate annual gross taxable income less than ALL 2 million are exempted from the requirement to submit the annual income declaration.

Individuals not subject to the annual income declaration, who generate annual gross taxable income not higher than ALL 1.05 million wishing to submit such declaration in order to benefit from the deductible expenses, can do so.

Whereas the declaration is made on an annual basis, the taxpayer has an obligation to pay the tax to the tax authorities by 20th day of the month following the month the payment is made.

Employers are required to withhold PIT on salaries and other compensation related to current employment.

8.3 Withholding Tax

8.3.1 Basis of taxation

An Albanian entity which makes payments to a non-registered foreign entity for services which the latter provides to the Albanian entity, is required to withhold from the invoiced amount and pay to the tax authorities the Withholding Tax (WHT).

8.3.2 Tax rate

The standard WHT rate in Albania is 10%.

8.3.3 Taxable income

All resident entities in the Republic of Albania including central and local government authorities, non-profit organizations and any other entity, created under the legislation in force, are obligated to withhold tax at the rate of 10% from the following gross payments sourced from the Republic of Albania:

- Dividends;
- Profit shares;
- Interest;
- Payments of copyright fees and royalties;
- Payments for technical, management, financial and insurance services;
- Payments for participation in directing councils;
- Payments for construction, installation, assembly or associated supervisory work;
- Rental payments;
- Payments for performance of actors, musicians, or sportsmen, including payments made to persons that

employ artists or sportsmen or act as intermediaries for the arrangement of shows or performances;

- Income generated from gambling and casino.

8.3.4 Exemptions

The above provision shall not be applicable in the following cases:

- The beneficiary of the products are Albanian residents registered as CIT and VAT;
- Taxpayers or taxpayers registered for local tax on small business;
- Payments made to entities not registered in Albania for services related to the international transport of passengers and goods.

8.3.5 Reduced WHT rates

In cases where a Treaty for the Avoidance of Double Taxation on Income and Capital (DTT) exists between Albania and the country of residence of the foreign entity, the payment of WHT might be avoided or reduced, provided that the conditions set up in the respective DTT are satisfied. The reduced rates, based on the DTTs, might vary from 0% to 5%.

Albania is party to 37 DTTs of which 33 are already in force. Please see the detailed list of DTTs in **Annex 1**.

8.3.6 Filing requirements

The taxpayer is required to remit WHT to the state by the 20th day of the month subsequent to that in which the payment is made to the service provider.

8.4 Social and Health Contributions

8.4.1 Taxable person

Subject to compulsory Social and Health Contributions (SHC) are employed persons, the self-employed, employers and persons who obtain regular income from different sources.

8.4.2 Foreign individual taxation

Foreign individuals who work in Albania under a local employment agreement are required to pay SHC in the same manner as local employees. Foreign employees working under a foreign employment contract in Albania (with some exceptions) have the right to choose between the Albanian Social and Health Insurance scheme, or another scheme of their home country.

8.4.3 Tax rate

Employees pay social security contributions at the rate of 11.2%. The employee contributions are composed of 9.5% social insurance contribution and 1.7% health insurance contribution.

Employers are liable to pay social security contributions for their employees at the rate of 16.7%. The employer contribution is made up of 15% social insurance contribution and 1.7% health insurance contribution.

The monthly minimum and maximum salaries for SHC purposes are 18,295 ALL and 91,475 ALL, respectively.

8.4.4 Filing requirements

Employers are required to withhold SHC on salaries and other permanent compensation related to current employees.

The submission of the tax returns, including the declaration and payment of SHC, must be made by the 20th day of the following month.

For the purposes of SHC, company's shareholders who also have administrative roles in the company are considered to be employees. The company is required to calculate and pay social and health contributions for these individuals at the same rates applicable for all other employees.

Taxpayers are now required to electronically submit monthly payrolls providing details on the social and health contributions and on the income tax obligations deriving from their employment. They are also obliged to submit the list of newly employed employees, existing employees as well as departing employees, starting from 1 January 2012. During 2012 these forms should be submitted to the tax authorities in hard copy as well.

8.5 Value Added Tax

Value Added Tax (VAT) is a tax imposed by government at each stage in the production of a good or service.

The standard VAT period is one calendar month.

8.5.1 Standard VAT rate

The standard rate is 20%, and applies to all goods and services not qualifying for reduced or zero rates.

8.5.2 Reduced VAT rates

A reduced 10 % VAT rate is applicable on the supply of drugs and health services provided by private or public institutions.

The zero-rate VAT applies to the following supplies:

- Export of goods;
- The supply of goods and services related to the international transport of goods or passengers;
- The supply of goods and services in relation to trading and industrial activities at sea;
- Services related to transport of goods and passengers;
- Services related to international telecommunications.

8.5.3 Exempt supplies

The following are considered VAT exempt supplies:

- Leases of land and buildings and interest payments on leasing transactions;
- Provision of services performed by Albanian subcontractors relevant to the processing of semi-finished goods intended for export;
- Financial services;
- Gold and banknotes supplies made by the Central Bank of Albania and second level banks;
- Educational services;
- Hydrocarbon operations;
- The supplies of packages and materials used for the manufacture and confection of drugs;
- Postage stamps;
- Gambling, casino and racetrack services;
- Written media and books;
- Advertising in electronic media;
- ID Cards;
- Supply of free goods distributed for emergencies;

- Export of services;
- Sale of land and buildings (although the construction process is not exempt).

8.5.4 VAT computation

The amount of VAT to be paid is calculated as the difference between the VAT applied to purchases (input VAT) and the VAT applied to sales (output VAT). If the input is higher than the output, then the difference is a VAT credit which can be carried forward to subsequent months. Otherwise, if the output VAT is higher than the input VAT, the difference represents VAT payable to the state.

Taxpayers who carry out VAT activities as well as VAT exempt activities, can credit only that portion of their Input VAT that corresponds to the VAT subject activities. To determine the amount of input VAT that can be claimed from the state, the taxpayer should estimate a VAT credit coefficient, being the ratio between VAT subject income over the total of VAT subject activities and VAT exempt activities.

8.5.5 VAT exemptions on import

The VAT Law establishes VAT exemptions in respect of specific cases of import of goods into Albania, including:

- Final import of exempted goods;
- Import of goods placed under transit regime;
- Import of goods declared to be under temporary allowance regime and active processing;
- Goods related to the implementation of research stages and development of hydrocarbon operations;
- Import of live animals donated by various donors;
- Goods imported from NATO;

- Import of ships.

8.5.6 VAT deferral scheme

The VAT deferred scheme for machinery and equipment imported by a taxpayer for the purposes of its business activity, regardless of their type, is applicable for a period of up to 12 months from the moment of importation. The VAT may be deferred for a term beyond the 12 month period upon a decision of the Minister of Finance when certain requirements have been met.

8.5.7 Supplies for which input VAT cannot be credited

Input VAT on the following supplies is not considered deductible for VAT purposes:

- VAT on fuel used for non-technological (operational) purposes;
- VAT on mileage, hotel accommodation expenses and likewise;
- VAT on acquisition of cars and on car related expenses, such as maintenance, except for cars purchased for further sale, or for business activities such as leasing, taxi services, etc.;
- VAT on promotional and publicity expenses;
- VAT on any services in relation to any of the above.

8.5.8 VAT reimbursement procedures

Taxable entities have the right to claim a VAT reimbursement if the following two conditions are met:

- The period in which VAT credits are carried forward exceeds 3 months, *and*
- The total amount of VAT credits is equal to or above ALL 400,000.

VAT taxpayers who are in a VAT credit position have the right to request (if all legal conditions are met) the reimbursement of the VAT credit within 30 days after the request is submitted to the relevant tax authority. In the event that the tax authorities do not proceed with the cash reimbursement, the taxpayer shall be entitled to reduce payments of other tax obligations by an amount equal to the VAT claimed, provided that approval from the tax authorities is received.

If the taxable person has obtained the right to reimburse its VAT credit position from the tax administration and simultaneously has a VAT debit position at the customs administration due to the application of the VAT deferral scheme on import, the taxpayer has the right to request in writing to Regional Tax Directorate to offset the amount of VAT to be reimbursed against the VAT debit position to the customs administration.

8.5.9 Filing requirements

The deadline for the electronic filing of VAT books is the 5th day of the following month.

The deadline for the electronic filing of tax returns and the payment of the related tax liability is the 14th day of the following month.

8.5.10 Application of the reverse charge mechanism on the import of services

The reverse charge mechanism should be applied to all services received from non-registered entities which are considered to be consumed in Albania. In this case, the Albanian beneficiary of the service is required to issue a VAT fiscal invoice in the same month in which the invoice from the foreign entities is received. The fiscal invoice should be declared in both the VAT purchase book as well as in the VAT sales book.

Non-resident taxable persons who provide services related to immovable property, the place of supply of which is Albania, are now liable to pay VAT in Albania, regardless of the value of the services supplied, by appointing a tax representative in the country.

8.6 Excise Tax

8.6.1 Taxable persons

Any individual, or legal entity (including their fiscal representatives) who either produces or imports into the territory of the Republic of Albania any commercial goods defined to be subject to excise tax, is subject to excise tax in Albania.

8.6.2 Taxable base

In the case of imports, the taxable base is the customs value of the imported goods, including customs duties.

As a general rule, for produced goods the taxable base is the sales price of the goods.

As a general rule the payment of excise duty occurs at the time of import or at the moment when the goods are produced.

8.6.3 Exemptions

Goods subject to excise do not require payment of excise in Albania when they are:

- To be exported;
- Under excise custom suspension regime;
- Imported by diplomatic representatives located in Albania or by international organizations on the grounds of ratified agreements;
- For fuel sold to fishing boats in accordance with the conditions specified from the Council of Ministers.

8.6.4 Reimbursement

Reimbursement of excise tax can be obtained on:

- The excise tax paid on fuel used by entities engaged in the constitution of energy resources with installed capacities of not less than 5 MW for both its own needs and for sale;
- The excise tax paid on fuel used in greenhouses as well as in the production of industrial and agricultural products;
- Plastic, glass, and mixed packaging used as input in local recycling industries of these materials are reimbursed at the rate of 50% of the excise paid for the packaging.

Businesses entitled to the reimbursement of excise duty paid on fuel and plastic packages, glass packages and mixed packages will be reimbursed each month by the tax authorities. If the excise duty is not reimbursed, businesses will then have the right to deduct the amount of excise reimbursable from other tax liabilities, with the exception of social and health insurance contributions.

8.7 Local Taxes

The local tax offices, as part of the Municipalities and Communes administration, are responsible for the collection of all local taxes. Local taxes are applied either as a percentage or as specific amounts and vary depending on location and/or the type of business activity engaged in.

Tax on small business

Physical persons or legal entities that conduct business activity in Albania and have an annual turnover of less than or equal to ALL 8 million are subject to local tax on small business.

For small businesses with an annual turnover less than or equal to ALL 2 million a fixed tax is applied, depending on the business category.

Tax on impact on infrastructure

Tax is levied on new construction projects for the impact they have on the existing local or national infrastructure. The tax is levied as a percentage of the investment value and varies from 2% to 4% in Tirana and 1-3% in other districts.

For the energy sector the tax is reduced to 0.1% of the value of the investment (including machinery and equipment) but not less than the cost of rehabilitation of the damaged infrastructure.

Real estate tax

All physical persons and legal entities whether local or foreign who own real estate property in Albania are subject to real estate tax.

Real estate tax on buildings. The tax amount is determined based on the surface area and varies depending on the district where the building is located.

Real estate tax on agricultural land. The tax is levied on each hectare and varies depending on the district where the agricultural land is located and on the land productivity categorisation.

Tax on transfer of ownership rights for real estate

For buildings, the tax is determined based on the surface of the building that is the subject of ownership transfer and varies according to the district and the purpose of use of the real estate.

For other kinds of real estate, except buildings, the transfer tax is defined as 2% of the sale price.

The tax is not applied to:

- Individuals who are subject to personal income tax;
- Ministry of Finance and central and local government bodies;
- Donators who grant donations of real estate in favour of governmental entities, religious institutions or non-profit organisations, provided that the donation is related to a non-profitable activity.

Hotel accommodation tax

The hotel accommodation tax is levied on the total invoice amount at the rate of 5%.

Taxes for the use of public areas

Local authorities determine taxes on the use of public areas for commercial purposes, which is based on the surface area of the occupied space and the location of the area.

Advertising Tax

Local authorities impose a tax on billboards used for identification or marketing purposes. The tax varies depending on the surface of the advertisement and the purpose of its exhibition.

Tobacco advertisements on billboards or any other form of publicity are not allowed.

Other taxes

There exist several additional taxes and fees such as cleaning tax, TV and telephone taxes, port charges, consular fees, airport taxes, registration taxes, tax on vehicles, etc.

The annual registration tax on vehicles is abrogated with effect from 24 August 2011.

9

Accounting and audit

9.1 Accounting

Since 1 January 2008 Albania applies International Accounting Financial and Reporting Standards (IAS/IFRS) or National Accounting Standards (NAS) subject to the requirements of the Law no. 9228 dated 29 April 2004 “On Accounting and Financial Statements”.

IFRS/IASs, as published by IASB and translated into Albanian under the supervision of the National Accounting Council, are obligatory for application by:

a) All entities listed in a stock exchange and their affiliates, subject of accounts consolidation;

b) Banks, insurance and reinsurance companies and other similar financial institutions;

c) Other unlisted entities that have exceeded, in the last two years, an annual turnover of ALL 1,250,000,000 and an average number of employees of at least 100 per year.

All other entities are obliged to apply the National Accounting Standards, issued by the National Accounting Council, which represent a shorter and simplified version of the IFRS/NAS, suitable to be applied by the Small and Medium Enterprises.

Entities are classified as follows:

Criteria	Micro enterprises	Small enterprises	Medium-sized enterprises	Large enterprises
Average number of employees	0-9	10-49	50-249	>250
Annual income (ALL)	<10,000,000	10-15,000,000	<250,000,000	>250,000,000

The local Chart of Accounts published by the National Accounting Committee is not mandatory, but rather serves as a reference to the entities applying NAS.

The accounting year in Albania is the calendar year.

Based on the Law “On Accounting and Financial Statements”, each legal entity operating in Albania should maintain its accounting records and prepare the financial statements in Albanian language and in Albanian Lek as the presentation currency.

The entity should store all accounting documentation (including electronic accounting records) for at least 10 consecutive years.

Transactions in foreign currencies are allowed to be carried at the respective currencies provided that they are translated into local currency (ALL) for reporting purposes as per the requirements of the Albanian legislation.

Entities in Albania are allowed to outsource accounting services.

The practical application of the accounting 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 IFRS and the trend in adopting a more tax compliant approach;
- Benefits of applying IFRS are not always understood by local companies.

A set of financial statements should include all the requirements of IAS 1 'Presentation of financial statements'. NAS financial statements are easier to prepare and require less explanatory notes to be disclosed.

In the case of commercial banks, except for IFRS, they need to use the Methodology on Reporting and Content of Financial Reports and Regulations of the Bank of Albania for the purpose of reporting to the Central Bank. This reporting framework is different from IFRS or NAS and is mainly based on banking regulations.

9.2 Audit

The audit profession is regulated by the Law no. 10091, dated 5 March 2009, "On legal audit, the organisation of the certified auditor profession and certified public accountant". The following entities must have their financial statements audited by an external auditor before such financial statements are published, or submitted to the tax authorities:

- a)** all commercial companies which apply IFRS, regardless of their legal form;
- b)** all joint stock companies which implement NAS as their financial reporting framework;

c) limited liability companies which apply NAS when at least two of the three conditions below are met:

- 1) total assets at the end of the respective financial period, are equal to or higher than ALL 40 million;
- 2) total turnover of the economic activity for the financial period is equal to or higher than ALL 30 million;
- 3) average number of at least 30 employees during the financial period.

The financial statements of the companies which are subject to supervisory regulations or laws, i.e. financial institutions, are subject to external audit to be performed by independent auditors, irrespective of their size.

Certified auditors or certified audit companies in Albania, use the International Standards on Auditing, which are applicable to any kind of audit of the financial statements. Auditors of financial institutions should be pre-approved either by the Bank of Albania or the Albanian Financial Supervisory Authority and can perform the audit of a bank or insurance company for seven and four consecutive financial years, respectively.

Listed entities, banks and insurance companies must have an audit committee comprised of non-executive directors of the administrative body or members of the Supervisory Board of the entity. At least one of the members of the audit committee needs to be independent and have appropriate accounting or audit knowledge.

10

Introduction to PwC



10.1. General information

PwC (www.pwc.com) is the world's leading professional services organization, drawing on the knowledge and skills of more than 161,000 people in 154 countries.

PwC offers assurance, tax, legal and advisory services to leading global, national and local companies and public institutions worldwide aiming to assist clients, build value, manage risk and improve performance.

10.2. PwC in Albania

PwC established its presence in Albania in 2004. The team in Tirana currently comprises a total of 39 staff and offers audit, accounting and tax advice, financial advisory services, including mergers and acquisitions, project finance and litigation support, outsourcing services and legal support.

PwC services in Albania reflect the demand of today's competitive, developing and rapidly changing Albanian marketplace. We recognize the importance of having experienced,

dedicated staff who can build strong, sustainable relationships, understand your business and work together with you to develop solutions to your business needs. Our combination of international and Albanian expertise is fundamental to the high quality of advice and assistance we offer. As elsewhere in the world, PwC, in Albania, uses the benefit of its hand-on experience to provide a strong level of local understanding and support, in accordance with the international professional standards of the PwC worldwide organization.

The clients of PwC in Albania are key players in the Albanian market, leading Albanian and international companies. We consider as our mission, helping our clients find solutions to complex problems arising in the course of today and offering them services of the highest quality. To serve our clients best, we aspire to understand their business and the specifics of the industry in which they operate. We offer solutions that provide competitive advantages to our clients and meet their needs.

At PwC in Albania, our services are organised into Lines of Service. Each of these lines is staffed with highly qualified, experienced professionals.

Our lines of service:

- Assurance Services
- Tax, Accounting and Legal Services
- Advisory Services

10.2.1. Assurance Services

PwC has the knowledge and experience necessary to help companies and organizations both large and small. Our audit and assurance approach, is tailored to suit the size and nature

of your organization. With our deep understanding of local and international regulation and legislation we can also help with complex reporting issues involving Sarbanes-Oxley and International Financial Reporting Standards (IFRS).

Additionally, we are leaders in the development of non-financial performance reporting, helping our clients respond to the need for greater transparency, improved corporate governance, and business models based on the principles of sustainability.

Our assurance services include:

- Financial statements audit;
- Regulatory compliance & reporting;
- Sarbanes-Oxley compliance;
- IFRS reporting;
- Independent controls & systems process assurance;
- Internal audit.

The Albanian statutory auditors are holders of Certified Public Accountants (CPA) and Association of Chartered Certified Accountants (ACCA) certificates and are members of the Institute of Certified Public Accountants in Albania.

10.2.2. Tax and Legal Services

Clients realise that, by seeking our expert advice, tax savings can be achieved. PwC in Albania provides comprehensive tax advisory services on all aspects of Albanian taxation, as well as on international taxation.

We provide tax and legal advice, answers to your questions and/or offer opinions on tax matters including research, discussions, memoranda and attendance at

meetings related to these matters. We give clients the benefits of our international expertise and our in-depth understanding of the local authorities. Our tax staff has substantial practice experience as well as academic experience through ongoing training within PwC.

Our tax services include:

- General Tax Consulting Services
- Indirect Tax Services - Value Added Tax
- Tax Structuring and Compliance
- Tax Management Accounting Services
- Expatriate Tax Services

10.2.3. Advisory Services

Our Advisory Services practice focuses on the strategic development of businesses, including the purchase or sale of businesses and assets, and assisting in the development of new projects. By combining the global knowledge pool of Advisory Services with our local skills we are able to provide an exceptional service to clients by effectively linking regional commercial reality with international resources and finding a position of mutual acceptability and consensus.

Our advisory services include:

- Transaction Services
- Performance Improvement

In Advisory Services we support and advise our clients in developing new projects, including feasibility studies, valuations, business plan preparation and market surveys. We also advise on the entire process of mergers, acquisitions or takeovers of businesses or parts of businesses.

Annex 1

List of Double Tax Treaties

No.	Tax Treaty with:	Effective since	Dividends (%)	Interests (%)	Royalties (%)
1	Malaysia	1 January 1995	5/15	10	10
2	Poland	1 January 1995	5/10	10	5
3	Romania	1 January 1995	10/15	10	15
4	Hungary	1 January 1996	5/10	0	5
5	Czech Republic	1 January 1997	5/15	5	10
6	Turkey	1 January 1997	5/15	10	10
7	The Russian Federation	1 January 1998	10	10	10
8	Croatia	1 January 1999	10	10	10
9	Macedonia	1 January 1999	10	10	10
10	Bulgaria	1 January 2000	5/15	10	10
11	Italy	1 January 2000	10	5	5
12	Norway	1 January 2000	5/15	10	10
13	Sweden	1 January 2000	5/15	5	5
14	Greece	1 January 2001	5	5	5
15	Malta	1 January 2001	5/15	5	5
16	Switzerland	1 January 2001	5/15	5	5
17	Moldova	1 January 2004	5/10	5	10
18	Belgium	1 January 2005	5/15	5	5
19	China	1 January 2006	10	10	10
20	Egypt	1 January 2006	10	10	10
21	France	1 January 2006	5/15	10	5
22	Kosovo	1 January 2006	10	10	10
23	Serbia & Montenegro	1 January 2006	5/15	10	10
24	The Netherlands	1 January 2006	5/15	5/10	10
25	Bosnia and Herzegovina	1 January 2009	5/10	10	10
26	Latvia	1 January 2009	5/10	5/10	5
27	South Korea	1 January 2009	5/10	10	10
28	Austria	1 January 2009	5/15	5	5
29	Slovenia	1 January 2010	5/10	7	7
30	Spain	4 May 2011	0/5/10	6	10
31	Luxembourg	In process	5/10	5	5
32	Ireland	1 January 2012	5/10	7	7
33	Estonia	In process	5/10	5	5
34	Germany	1 January 2012	5/15	5	5
35	Kuwait	In process	0/5/10	10	10
36	Singapore	1 January 2012	5	5	5
37	Qatar	In process	5	5	5

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