

MACEDONIA

LAND OF INVESTMENT OPORTUNITIES



Makedonya-Türkiye Ticaret Odası

MATTO

Macedonian-Turkish Chamber of Commerce



**CUSHMAN &
WAKEFIELD®**



FORTON

Forton is an independently owned and operated member of the Cushman & Wakefield Alliance



MACEDONIA

LAND OF INVESTMENT OPORTUNITIES

Makedonya-Türkiye Ticaret Odası

MATTO

Macedonian-Turkish Chamber of Commerce



Forton is an independently owned and operated member of the Cushman & Wakefield Alliance

Forton Macedonia
an independently owned and operated member of the
Cushman and Wakefield Alliance

CONTENTS

WELCOME NOTE	7
MACEDONIA LAND OF INVESTMENT OPORTUNITIES	8
General information	8
The Country	8
The Infrastructure	8
Roads and railways	9
Airports	9
Communications	9
Fixed-line communications	9
Internet	9
Labor force	9
Trade agreements	10
WTO	10
European Union	10
EFTA	10
CEFTA	10
Bilateral Free Trade Agreements	10
Technological industrial development zones (TIDZ)	10
Top Reformer Country	11
EU and NATO Integration	12
The Economy	12
MACEDONIA ENVIRONMENT FOR FOREIGN INVESTORS	15
Protection and promotion of foreign investments	15
National treatment and most favored nation status	15
Protection of investments	16
Incentives	16
Forms of foreign investments	16
Profit and capital repatriation	16
Branches	17
Representative offices	17
International Private Law Code	17
Competence of Macedonian courts and other authorities	18
Applicable law	18
COMPANY LAW	20

TAXATION	20
Profit tax	20
Branch vs. subsidiary	20
Taxable income	21
Non-deductible expenses and understated revenues	21
Transfer pricing	22
Thin capitalization rules	22
Tax depreciation	23
Tax losses	23
Capital gains and losses	23
Withholding tax	23
Tax paid abroad	25
Grouping/consolidated returns	25
Corporate tax incentives	26
Value added tax (VAT)	26
Tax regime and place of supply of goods	26
Place of supply of services	26
Registration for VAT purposes	27
Mandatory VAT registration	27
Voluntary registration	27
VAT registration procedure	27
Deregistration	28
VAT grouping/VAT consolidation	28
VAT period	28
VAT rates	28
Standard rate	28
Reduced rate	28
Recovery of input VAT	29
Reimbursement of VAT	30
VAT refund for non-residents	30
EMPLOYMENT REGULATIONS	32
Legislation	32
Employment contracts	32
Working hours	33
Holidays	33
Medical check-ups	33
Healthy and safe working conditions	34
Termination of employment contracts	34
Working in Macedonia (Foreign nationals)	34
Work permits	34
Foreign nationals who may work on short-term assignments without a work permit	34
REAL ESTATE REGULATION	36
Types of ownership over real estate	36

Evidence of title	37
Acquisition of real estate	37
Title documents	37
Statutory costs	37
Title review	38
Development	38
Regulation and planning	39
Environmental impact assessment	39
Permission for construction works	39
Execution of construction works and their use	39
Mandatory participants in the development process	40
MACEDONIAN REAL ESTATE MARKET	41
RESIDENTIAL MARKET OVERVIEW	41
Residential units under construction	42
Market supply	42
Demand	42
Vacancy at delivery	42
Market prices	42
Market outlook	43
OFFICE MARKET OVERVIEW	43
Supply	43
Take up/Demand	44
Vacancy	45
Rents	45
Forecast	45
Investment Focus	46
RETAIL MARKET OVERVIEW	47
Supply	47
Demand	47
High street	48
Rents	48
Vacancy	48
Forecast	49
Investment Focus	49
HOTEL MARKET OVERVIEW	50
Occupancy	50
Rates and performance	50
Forecast	51
Investment Focus	51
ABOUT FORTON MACEDONIA	52
MAIN SERVICE LINES	52
Capital Markets & Consultancy	52
Retail / Office / Logistic space LEASING	53
Property Management	53
Investment sales & Acquisitions	54

WELCOME NOTE

Macedonia land of investment opportunity is guide published by FORTON Macedonia and MATTO to provide information to international investors considering investing in Republic of Macedonia. We expect this Guide to be of valuable assistance to foreign investors or potential investors, regardless of the type, size and character. This guide highlights many of the principal features of general business and regulatory environment in Macedonia.

In recent years Macedonia has developed as an attractive destination for foreign direct investment. This has been difficult battle for Macedonia since the region has been experiencing strong competition as almost all neighboring countries offer significant incentives to foreign investors.

Macedonia, in the recent years, managed to maintain steady growth of the GDP, low inflation rate and to decrease the level of unemployment. These trends have been maintained in 2015 and in the first quarter of 2016 despite the on-going political instability. The priorities given by the Government to the country economic development in the previous years has materialized into generally improved business climate, significant deregulation, and range of tax incentives for the investors. These developments have created favorable investment climate for both foreign and domestic investors. Also, the development of Technological and Industrial Development Zones and the investment incentives offered to foreign investors in the Zones additionally creates favorable environment for foreign direct investments. All these developments have been verified by World Bank's Doing Business Survey. Namely, according to the World Bank's Doing Business Survey, Macedonia in recent years has frequently been ranked within the world top reforming countries.

Nevertheless, Macedonia has a number of areas where additional efforts and improvements are needed. Next years will be critical since Macedonia will be faced with a number of challenges to continue with the reforms and to further build upon its reputation as an investment destination. This road will be especially challenging, since the still unresolved name dispute with Greece, continues to burden the process of accession of Macedonia in to EU and NATO.

In this dynamic environment, this Guide is aimed at providing comprehensive and up-to-date information on doing business in Macedonia in order to help the international investors looking at Macedonia as potential investment destination.



M-r Tuna Ejup Kahveci
President
Macedonian-Turkish Chamber of Commerce



M-r Vlatko Bogoevski
Managing Partner
FORTON Macedonia



MACEDONIA LAND OF INVESTMENT OPPORTUNITIES

General information

The Country

The country's total area is 25,713 square kilometers. Macedonia consists mostly of highlands and mountains. Its terrain is punctuated alternately by deep valleys and rugged mountains and hills. Macedonia is situated in the central part of the Balkans peninsula. It is a landlocked country, bordered on the north by Serbia and Kosovo, on the east by Bulgaria, on the south by Greece, and on the west by Albania. Macedonia is strategically located along key land routes from Europe to the Middle East and Asia. According to the latest statistics, in 2010 Macedonia's population was approximately 2.05 million.

The capital, Skopje, is by far the largest urban area in excess of 600,000 inhabitants. Ethnic Macedonians represent 66% of the population. Albanians make up 25%. Minority groups include Turks 4%, Serbs 2%, Roma 2% and others 1%. 66% of the Macedonian population is Eastern Orthodox Christian. Another 33% of the population practice Islam, and 1% other religions. The country's official language is Macedonian. Secondary languages closely correspond to ethnic background. English is used frequently in business.

The Infrastructure

Roads and railways

The Republic of Macedonia is situated as a transport hub. Most of the roads connecting the larger cities are of fair quality, especially the transit routes that are mostly highways. The most important of these is E-5 highway, which follows the Morava and Vardar valleys and leads on to the Aegean and the Near East. This route is also followed by an international railway line. Most tourist amenities are connected by modern roads. The most recent projects in road infrastructure are the construction of several roads including here the Kichevo – Ohrid motorway (estimated at €411 million) and Stip – Miladinovci motorway (estimated at €227 million). The country has an electrified rail network conveniently connected to several cities. It includes about 925 km of railway lines.

Airports

The Republic of Macedonia has two international airports – at Skopje and Ohrid – which can accommodate all types of modern aircraft, except inter-continental flights. The Turkish company TAV has taken over the management of both airports for a period of 20 years.

Communications

Fixed-line communication

The telephone system is modern and digitalized. The major provider of fixed-line communications is Makedonski Telekom owned through Matav by Deutsche Telekom. Other fixed-line operators include ONE.VIP Neotel, Telecabel and Blizoo. The digitalized telephone service is available in most rural areas. Direct international dialing is available everywhere.

Internet

This is a vibrant market populated by numerous internet service providers (ISPs), whose rates and service quality vary widely. The largest internet provider in Macedonia is Makedonski Telekom, offering wireless, dial-up, ISDN, ADSL and optic internet connections.

Labor force

Every year in Macedonia 10,000 college graduates are ready to bring their talents to area employers. With 41.5% of the population under the age of 30 years Macedonia has highly competitive labor force with high intellectual capital. 85% of high school graduates enroll in universities. Macedonia spends in excess of 5% of GDP spent on education. In the recent years the Government is focused on developing of human capital with background in technical sciences, this the country has invested in excess of € 60 million in 200 new laboratories in the technical Universities.

Republic of Macedonia	Q3 2015
Labor force	950,610
Employed	711,380
Unemployed	243,230
Average gross salary	538 €
Average net salary	367 €

Trade agreements

Framework agreements liberalizing foreign trade between Macedonia, the European Union, the European Free Trade Association (EFTA) and the Central European Free Trade Agreement (CEFTA) countries, as well as Turkey and Ukraine, have expanded the market exposure of domestic manufacturers. Macedonia's major trade agreements are as follows:

WTO

Macedonia has been a member of the World Trade Organization (WTO) since 4 April 2003.

European Union

In April 2001, Macedonia and the European Community and its Member States became signatories to the European Stabilization and Association Agreement effective from 1 April 2004 and the Interim Agreement on Trade and Trade Related Matters covering various trade components effective from 1 June 2001. In accordance with the Stabilization and Association Agreement, customs duties on industrial goods between Macedonia and the EU countries are in the process of being phased out. Currently, there is a wide asymmetric liberalization of EU imports of industrial goods of Macedonian origin which are duty-free.

Relief for agricultural produce is also provided. In March 2004, Macedonia submitted an official application for European Union membership. Having acquired EU membership candidate status in December 2005, the Republic of Macedonia embarked upon the key stages of European integration.

EFTA

According to an Agreement signed on 19 June 2000 which entered into force on 1 May 2002, trade with EFTA countries (Iceland, Liechtenstein, Norway and Switzerland) enjoys preferential terms and conditions.

CEFTA

Macedonia became a CEFTA member in 2006. The trade component of this agreement came into force on 26 July 2007. In accordance with CEFTA, Macedonia began liberalizing trade in industrial and agricultural goods with CEFTA member countries: Albania, Bosnia and Herzegovina, Moldova, Montenegro, Kosovo and Serbia.

Bilateral Free Trade Agreements

Macedonia has signed and ratified such agreements with Turkey and Ukraine.

Technological industrial development zones (TIDZ)

Currently, there are four working technological industrial development zones in Macedonia, two in Bunardzik close to Skopje, and one each in Stip and Tetovo. In the TIDZ Skopje 1 near Bunardzik, factories have been built by several investors including Johnson Controls and Johnson Matthey. There are ongoing activities for construction of factories from several foreign investors within the existing technological industrial development zones.

Top Reformer Country

Major regulatory reforms in 2015 included:

- One-Stop-Shop: 4 hours company registration
- Regulatory Guillotine
- Electronic One-Stop-Shop for customs permits and licenses
- Single window: Improving interoperability between government institutions
Further cadaster reforms
- Digital Cadaster covering 99% of the real estate in Macedonia
- Notaries and land surveyors have access to land register through on-line system
Further liberalization of real-estate market
- Foreigners free to purchase real estate and construction land
- Simplification of procedures for obtaining construction permits from 21 to 3 steps
Further liberalization of Labor Market
- Modern Labor Law
- Improved labor force flexibility

These and other reforms have resulted in significant shift in the position of Macedonian in World Bank's doing business 2016 Report. Namely Macedonia has ranked 12th ease of doing business and 2nd in starting a business according to this report, and consequently best country for starting business in the region. According to 2015 PWC and World Bank Group Study Macedonia has ranked 1st in total tax rate in the world and 7th in overall paying taxes.

Country	Ease of Doing Business 2016	Best Countries for Business Forbs Magazine Global Rankings 2013	Index of Economic Freedom World Rankings 2015	Overall Paying Taxes Ranking 2015	Corruption perception index
Macedonia	12	36	53	7	64
Poland	25	39		87	
Slovakia	29	48			
Slovenia	29	17	88	42	
Czech Republic	36	43		119	
Romania	37	51	57	52	69
Bulgaria	38	42	55	89	69
Croatia	40	45	81	36	
Hungary	42	47	54	88	
Montenegro	46	44	66	98	76
Turkey	55	57	70	56	
Serbia	59	86	90	165	78
Bosnia and Herzegovina	79	82	97	151	80

Source: Invest Macedonia

EU and NATO Integration

The European Union (EU) integration of the Republic of Macedonia is proclaimed to be one of the most important goals of the Government. The achievement of candidate status for EU membership has provided a strong incentive for furthering the realization of the goals, directions and priorities set by the Macedonian Government as part of its Program 2011-2015, continuing with reforms towards overall fulfillment of the terms for EU membership, establishing an efficient negotiation structure, building negotiation positions and setting a negotiation date.

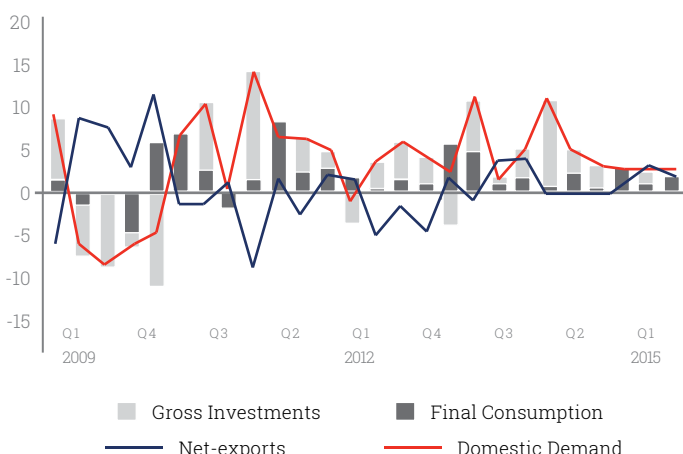
The Economy

The economy posted solid gains in 2015 driven by household consumption, a surge in government spending and net exports. Private investment remained restrained, as uncertainties about the external environment and the domestic political situation prevailed also in the later part of the year. The outlook remains optimistic, with investment likely to pick up again once a new government is installed. The government confirms its commitment to fiscal consolidation in the medium term, but fails to curb current spending.

Private consumption is expected to remain key growth driver. The economy continued to post solid gains. GDP growth in 2015-Q3 accelerated to 3.5% y-o-y. Given upward revisions to earlier estimates, the economy expanded by an average of 3.4% y-o-y in the first nine months, with household spending as the key growth driver, supported by net exports and a surge in public consumption. According to the European Commission in 2016 and 2017, growth is projected to remain solid, the economy is expected to expand by 3.3% in 2016 and by 3.5% in 2017 with a slight acceleration towards the end of the horizon.

Domestic demand is expected to remain the key driver. Household spending is expected to benefit further from positive wage trends, a benign price environment, ongoing job creation, and further increases in transfers and pensions. Net real wages have been rising for 24 months in a row, on account of both, gains in nominal wages and deflation.

Domestic Demand and Net-Exports
(contributions in nominal annual growth, in percentage points)



Source: NBRM

Export and Import nominal changes
(y-o-y, in million denars)



Source: State Statistical Office

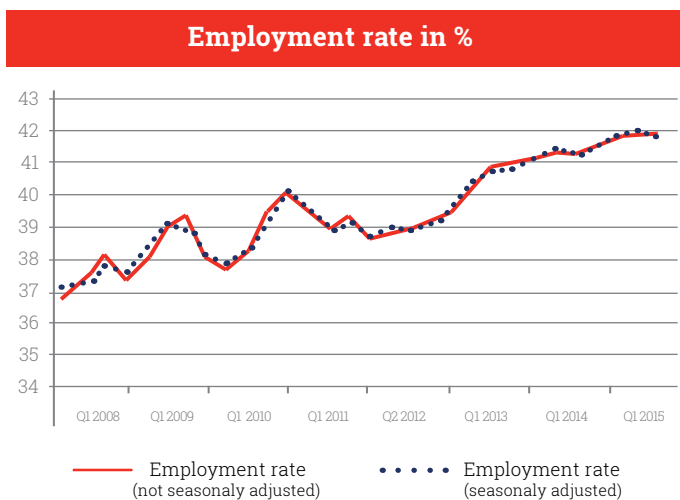
Investment remain restrained, with the domestic political crisis taking its toll on confidence. It is expected to return to moderate growth rates once the political climate stabilizes. Contributions from net exports are diminishing Export growth slowed down in the third quarter, compared to the first half of the year, reflecting an increasingly difficult external environment, and, in

particular, unfavorable conditions in global metal markets, one of the country's most important exports. Import growth, which was roughly flat during the first half of the year, picked up in the third quarter, and accelerated further thereafter, possibly pointing to strengthening export demand - the import content of production by foreign companies, accounting for about two thirds of the economy's exports, remains high, as most of the required machinery and raw materials comes from abroad.

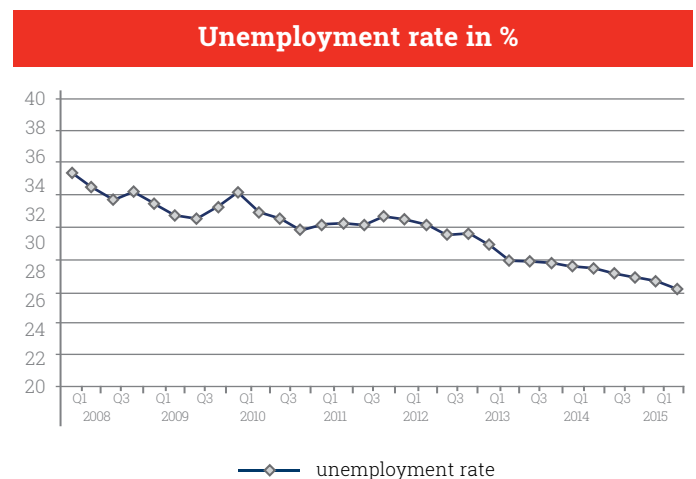
In 2016, net exports are projected to contribute positively to the economy's growth, yet making a negative contribution later on, in view of an expected renewed push in import demand. With a number of newly established foreign plants starting production this year and next, exports would post solid increases, while the related demand for inputs would still largely be served from abroad rather than domestically. Compared to previous expectations, the merchandise trade balance is projected to improve significantly, driving the current account into slight surplus.

Employment growth is expected to remain robust. Labor market conditions are expected to have improved somewhat further in 2015, yet masking continued serious challenges in some target groups, such as young workers and women. The export industries accounted for the majority of new jobs created in the first three quarters of 2015. Employment growth is likely to continue at solid rates, averaging 2.2% over the forecast horizon, mainly on account of job creation in new foreign production plants, but also in some domestic manufacturing industries. This is expected to translate into further reductions in the overall unemployment rate.

Price pressures are expected to remain moderate Consumer prices decreased again towards the end of 2015, after a temporary rise over the summer. Annual deflation in 2015 amounted to 0.3% mainly on account of a decline in energy intensive, transport services, and a decline in food prices (41% of the index) starting in October. The price environment is expected to stay benign, given only moderate expected increases in external pressures and absence of domestic ones.



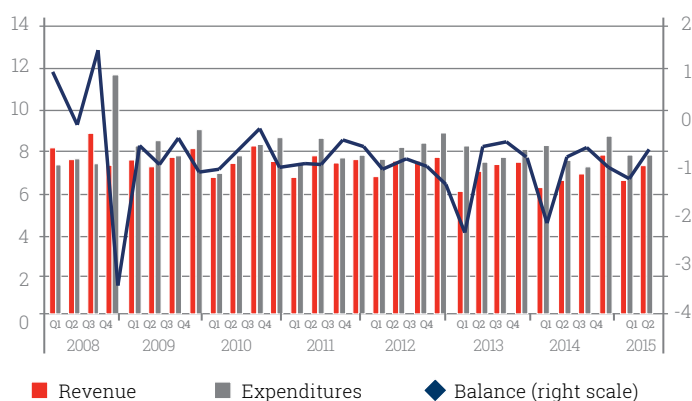
Source: State Statistical Office



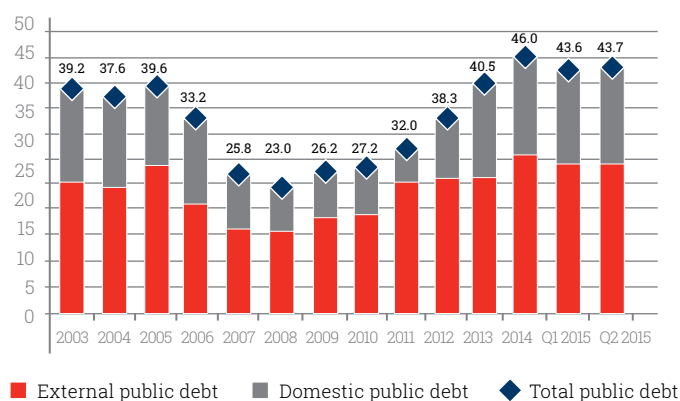
Source: State Statistical Office, Labor Force Survey

Fiscal consolidation remains a challenge for the country. The supplementary budget for 2015 increased the general government deficit target from 3.4% to 3.6% of GDP, on the back of lower annual growth expectations (3.5% instead of 4%). Revenues outperformed - profit tax collection more than doubled as exemptions for reinvested profits had been removed. In response, the government increased spending, in particular for social transfers and public wages, rather than using these extra revenues to rebuild fiscal space.

Budget revenue and expenditure, in % of GDP



PUBLIC DEBT IN % OF GDP



Source: Ministry of Finance

Source: NBRM

The Government projects the deficit to decline to below 3% by 2017, but the required spending cuts remain little concrete. It is expected that the official deficit targets for 2016 and 2017 will be exceeded, albeit not as severely as in the past. Hence, the stabilization of government debt is unlikely over the horizon, and overall public debt, which includes government-guaranteed debt of state-owned enterprises is projected to increase further.

Selected Macroeconomic Indicators	Annual Percentage Change			
	2014	2015	2016F	2017F
GDP	3.5	3.3	3.3	3.5
Public Consumption	2.1	3	2.4	2.5
Gross Fixed Capital Formation	13.1	0.9	4.9	6.5
Exports (goods and services)	18.2	5.3	5.5	6.5
Imports (goods and services)	16	1.7	2.6	5.5
GNI (GDP deflator)	4	2.9	2.4	3.5
Contribution to GDP growth				
Domestic demand	4.8	3.1	3.3	3.8
Inventories	0.7	-1.3	1	0
Net exports	-1.9	1.4	1	-0.2
Employment	1.7	2.1	2.1	2.3
Unemployment rate	28	27	25.8	24.6
Compensation of employees	1.5	0.8	1.3	2.2
GDP deflator	1.1	-0.5	0.4	1.2
CPI	-0.3	-0.3	0.7	1.5
General Government balance	-4.2	-3.8	-3.5	-3.1
General Government gross debt	38.2	39.6	4.8	41.6

Source: State Statistical Office; EU Economic Forecast



РЕПУБЛИКА МАКЕДОНИЈА
ДИРЕКЦИЈА ЗА ТЕХНОЛОШКИ ИНДУСТРИСКИ РАЗВОЈНИ ЗОНИ

REPUBLIC OF MACEDONIA
DIRECTORATE FOR TECHNOLOGICAL INDUSTRIAL
DEVELOPMENT ZONES

MACEDONIA ENVIRONMENT FOR FOREIGN INVESTORS

Protection and promotion of foreign investments

National treatment and most favored nation status

The Macedonian Constitution stipulates that foreign persons (legal entities, individuals or civil partnerships registered in a foreign country) must enjoy equal rights with local persons when conducting economic activities in the Republic of Macedonia except where otherwise provided by the law (national treatment). This principle covers the entire range of economic and legal forms used for business activity.

According to the Trading Company Law, foreign companies and foreign sole proprietors shall operate according to the terms and conditions stipulated by law and shall be given equal treatment in their operations with domestic individuals and legal entities on the territory of the Republic of Macedonia, unless otherwise stipulated by an international agreement and/or by law regulating special types of foreign companies and foreign sole proprietors with a specific scope of operations.

If a bilateral treaty signed and ratified by the Republic of Macedonia provides for more favorable investment terms and conditions for international investors, the citizens or legal entities of the respective contracting country will enjoy preferential investor treatment ("most favored nation status").

Protection of investments

Macedonia is a party to 38 Bilateral Agreements for Mutual Protection and Encouragement of Foreign Investment. The country is also a party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

Incentives

Macedonia has a flat tax rate of 10% for corporate and personal income tax purposes. Investors are eligible for reduction in the profit tax base by the amount of prior profit reinvested in tangible assets (such as real estate, facilities and equipment) and intangible assets (such as computer software and patents) used for expanding the business activities of the entity.

The Law on Technological Industrial Development Zones provides for a special tax treatment for any investor who invests in the appointed zones. Generally, these incentives include:

- Ten-year tax holiday from profit tax for entities performing their business activities in the zones;
- Tax holiday from personal income tax on salaries to all workers employed at entities carrying out business activities in the zones for a period of 10 years from the month in which the first salary is paid;
- Certain exemption from value added tax (VAT) for trade made within the zone and for imports in the zones.

In addition to the tax incentives, this Law also provides for certain customs exemptions, exemptions from fees for preparation of the construction site, free connection to the water, sewerage, heating, gas and power supply networks, and other incentives.

Forms of foreign investments

The Law on Foreign Exchange Operations defines direct investments as investments by an investor with the aim of establishing lasting economic links and/or realizing a right to manage a trade company or another legal entity in which the investor has invested. The law lists the following types of direct investments:

- Creation of a trade company or extending the equity of a trade company to full ownership by the investor, establishing branches, or the acquisition of full ownership of the existing company
- Participation in a new or already existing trade company if the investor holds or acquires more than 10% of the participation in the equity of the trade company, i.e. more than 10% of the voting rights
- Long-term loan with a maturity period of five years or more, when it is a loan from an investor intended for a trade company that the investor fully owns
- Long-term loan with a maturity period of five years or more, when it is a loan intended for establishing lasting economic links and if such loan has been granted between economically associated entities.

Profit and capital repatriation

The Law on Foreign Exchange Operations allows foreign investors freely to transfer profit, proceeds from disposal and sale of ownership shares in direct investments and the remainder of a liquidated investment, provided that they have registered their direct investments

according to this Law and have paid all legal obligations relating to taxes and contributions in the Republic of Macedonia.

Establishment of new business entities or acquisition of shares in existing entities

Macedonian laws provide that foreign entities and/or foreign individuals may establish entities with foreign participation and can acquire shares in existing local entities. Such companies must take the form of entities as outlined in the Trading Company Law. There is no limitation on the share participation of foreign legal entities and individuals, unless otherwise provided for by another law for specific types of businesses.

No prior permission from governmental institutions is required for the establishment of an entity of the above types, except for cases involving banking or insurance activities, and investment funds.

Branches

A foreign company has the right to establish branch offices as its own organizational units or in any other manner to carry out operations and assume liabilities and exercise its rights before the bodies and institutions of the Republic of Macedonia, under the terms and conditions set out by the law.

A foreign company or a foreign sole proprietor is obliged to register the establishment of its branch office in the Commercial Register, based on reciprocity.

The branch office of the foreign company and the foreign sole proprietor must disclose each year in the Commercial Register or another appropriate register the annual accounts, the audit report and the notes pertaining to recorded data in the register which were changed, pursuant to administration, or bankruptcy reorganization proceedings or other notes which are relevant to the financial situation of the foreign company or the foreign sole proprietor.

The foreign company or the foreign sole proprietor is liable, up to its entire assets, for the liabilities incurred during the operation of the branch office.

Where a foreign company, or a foreign sole proprietor, that has established a branch office has been registered in the state where it has its registered office for less than two years as of the date of the submitted request for the establishment of the branch office, the founders of the foreign company, or the foreign sole proprietor, shall be jointly and severally liable for liabilities that arise from the operations of the branch office, in addition to the liability referred to in the paragraph above, for a period of two years as of the date of its registration.

Representative offices

A foreign company entitled to carry out commercial activities pursuant to its national legislation may establish a commercial representative office in the Republic of Macedonia. A representative office is not a legal entity and shall not carry out commercial activities.

The manner, registration procedure and the body authorized to register the entry of representative offices is prescribed by the Government of the Republic of Macedonia.

International Private Law Code

The rules of the International Private Law Code (IPLC) regulate the terms and conditions

concerning the choice of applicable law in private legal relations, which have an international element as well as the recognition and enforcement of foreign court judgments in Macedonia.

Competence of Macedonian courts and other authorities

The international competence of Macedonian courts and other authorities is exclusive only if it is explicitly provided for. For example, lawsuits and claims concerning real estate property and property rights in Macedonia are within the exclusive power of Macedonian courts.

Macedonian courts also have exclusive competence on lawsuits concerning:

- Legal status of legal entities registered in the Republic of Macedonia
- Validity of a registration in public registers
- Registration and validity of industrial ownership rights if the application has been submitted in the Republic of Macedonia
- Approval and execution of enforcement on the territory of the Republic of Macedonia.

Applicable law

Legal entities and branches of foreign companies are regulated by the law of the state in which they are registered. Therefore, legal entities and branches of foreign companies registered in Macedonia shall be subject to Macedonian law.

Since ownership rights upon movable and immovable properties are regulated by the law of the state in whose territory they are located, Macedonian law shall be applicable to properties located within Macedonia. Contracts are regulated under the law chosen by the parties, unless otherwise provided for in the IPLC or an international treaty.

Unfair competition and the restriction of competition are regulated by the law of the state in whose territory the interests of competitors or consumers are damaged or may be damaged.

MAJOR FOREIGN INVESTORS	COUNTRY
Magyar Telecom	Hungary
EVN	Austria
NBG Group	Greece
NLB Group	Slovenia
Societe Generale	France
Erste Group	Austria
WIG	Austria
UNIQA	Austria
Triglav Osiguranje	Slovenia
Halk Bank	Turkey
Achibadem	Turkey
MIGROS	Turkey

VEROPOLOUS	Greece
HELENIC Petroleum	Greece
Telecom Austria Group	Austria
Johnson Controls	USA
Johnson Matthey	UK
Cevahir Holding	Turkey
Balfin Group	Albania
Sutash	Turkey
KEMET	USA
Teknohose	Italy
VanHool	Belgium
Endava	UK
Amhenol	USA
Istem Medical	Turkey
Key Safety Systems	USA

COMPANY LAW

The Trading Company Law governs the formation, operation, transformation and termination of companies in the Republic of Macedonia.

There are five forms of business association in Macedonia under the Trading Company Law:

- **General partnership** (Javno Trgovsko Drushtvo – JTD)
- **Limited partnership** (Komanditno Drushtvo – KD)
- **Limited liability company** (Drushtvo so Ogranichena Odgovornost – DOO)
- **Joint-stock company** (Akcionersko Drushtvo – AD)
- **Limited partnership with shares** (Komanditno Drushtvo so Akcii – KDA)

All types of business associations are recognized as legal entities. The founders may participate in one or more companies provided that the law does not prohibit such participation. Irrespective of the nationality of its founders, each type of company is considered to be Macedonian.

TAXATION

Profit tax

Corporate entities, including subsidiaries of foreign companies incorporated under Macedonian law, are considered Macedonian tax residents.

Upon registration in Macedonia, these legal entities are subject to tax on their profit realized from carrying out business activity in Macedonia, as well as abroad. The tax rate is flat and set at 10% of the tax base. Non-resident companies are subject to tax on profits derived from carrying out business activities in Macedonia if these are carried out through a permanent establishment of the foreign legal entity.

The tax year for profit tax purposes is the calendar year. The corporate profit tax is calculated based on taxation of year-end profits as adjusted for tax purposes. There is a ten-year tax holiday from profit tax, granted to entities performing their business activities in technological industrial development zones.

Branch vs. subsidiary

Permanent establishments, including branches, are subject to tax on profits derived from their activities in the country. Effectively, there is no difference between the taxation of branches and subsidiaries with respect to business profits, i.e. tax is paid annually on non-deductible expenses and on profits at the moment of their expatriation. The repatriation of after-tax profits generated by a branch is not subject to withholding tax.

Taxable income

Generally, a taxpayer's tax base is the entity's accounting result according to its financial statements, further adjusted for profit tax purposes. These adjustments represent either items that increase the financial result for tax purposes, usually an add-back of non-deductible expenses, or items that decrease the financial result for tax purposes. The latter are usually specific income items that are exempt from taxation, or tax incentives provided by the Government.

Most of the expenses which are not recognized for tax purposes represent permanent tax differences. Temporary tax differences (expenses which are non-deductible for tax purposes in the year when accrued for accounting purposes, but in a subsequent period, if certain conditions are met) arise mainly from impairment of receivables and loan receivables (explained in further detail below).

Non-deductible expenses and understated revenues

Some of the major taxable items include (the list is not exhaustive):

- Expenses not related to the taxpayer's business activities
- Payments for employment-related expenses, such as food and transportation, business trip expenses, use of a private vehicle for business purposes, severance payments, and retirement allowance exceeding prescribed limits
- Monthly personal allowances for executive and non-executive directors whose amount exceeds 50% of the average monthly salary, as well as the total amount of the insurance premiums
- Voluntary pension contributions exceeding four average monthly salaries per employee on an annual basis
- Donations exceeding 5% and sponsorships exceeding 3% of total revenues
- Hidden distributions of profits which include providing goods or services at prices below arm's length to shareholders or parties related to them, including lower interest rates on loans granted, unjustified shortages
- Interest expenses on loans falling under the thin capitalization rules (refer below for more details)
- Withholding tax, borne as a cost by a Macedonian taxpayer
- 90% of entertainment expenses.

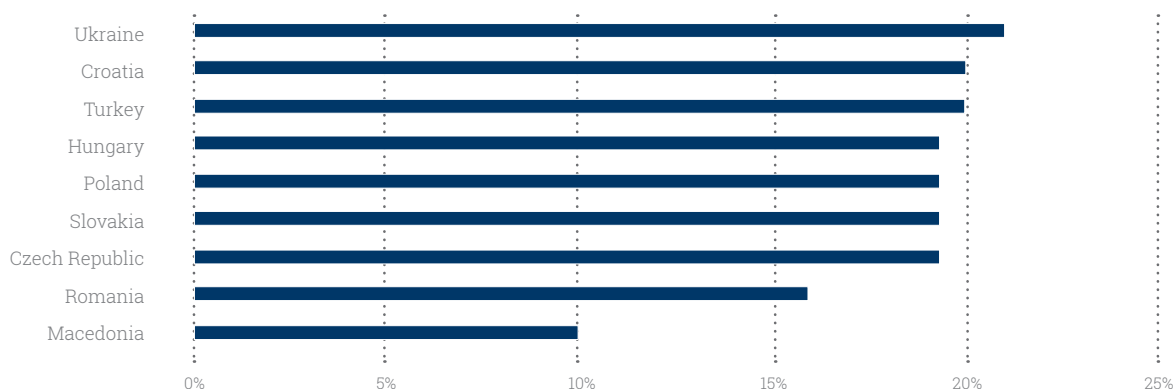
Write-off and impairment of receivables

Write-off and impairment of receivables (except in the case of banks, saving houses or insurance companies) are generally not recognized for tax purposes, i.e. generally considered non-deductible expense and subject to 10% tax. Write-off and impairment of receivables are tax deductible in case they are accrued as the result of a court judgment or if the receivables are duly reported in the course of a bankruptcy or liquidation procedure.

The tax base for a certain period could be reduced for the amount of the collected receivables which were impaired in previous period(s) and accordingly included in the tax base for the respective year(s).

The loans provided which are not repaid in the same year in which they were provided are considered a taxable expense, and a tax credit will be available in the year of repayment.

CORPORATE INCOME TAX



Source: Invest Macedonia

Transfer pricing

Transactions between related parties are recognized for tax purposes at arm's length, i.e. should transactions deviate from the market level, the differences could lead to additional income being assessed or an expense being disallowed for tax purposes. For the purpose of determining the market level, as per the Profit Tax Law (PTL) the comparative uncontrolled price method or the cost plus method could be used.

Taxpayers, on the request of the Public Revenue Office, are obliged to present satisfactory information and evidence to substantiate whether related party transactions have been performed at arm's length.

Furthermore, interest on loans granted between related parties (except for loans granted by banks or other financial institutions) is recognized for tax purposes at arm's length.

In case the taxpayer cannot produce satisfactory evidence that the interest on related parties loans is on an arm's length basis, the interest income/expense from these loans will be determined for tax purposes by applying EURIBOR plus 1% (SKIBOR plus 1% for loans extended in MKD).

Penalty interest between related parties is not recognized for tax purposes (except penalty interest incurred with regard to a bank or other financial institutions).

The definition of related parties for tax purposes was expanded in 2014 and includes:

- Individuals or legal entities who have control or significant influence over the taxpayer's business decisions
- Related companies in accordance with the Trading Company Law
- Family members of owners or members of the Management Board
- Any legal entity which is resident in a country with a beneficial tax system.

Thin capitalization rules

Interest on loans granted by direct shareholders holding at least 25% of a company's share capital (qualifying shareholder) is considered non-deductible for profit tax purposes should the loan amount exceed threefold the amount of the equity attributable to that shareholder.

The same rule applies to loans granted by a third party, while guaranteed by a qualifying shareholder or granted in relation to a deposit provided by the qualifying shareholder to the

third party. The amount which is not recognized for tax purposes is the amount of interest on the part of a loan which exceeds threefold the amount of the equity attributable to the qualifying shareholder.

The thin capitalization rules do not apply to loan facilities granted by direct shareholders which are banks or other financial institutions, as well as loan facilities granted by direct shareholders to newly established entities in the course of the first three years of their establishment.

Tax depreciation

The annual depreciation/amortization expense is recognized for tax purposes in accordance with the applicable accounting standards.

Tax losses

Tax losses comprise accounting losses reduced by any non-deductible expenses, and can be carried forward and offset against future taxable profits in the following three years.

However, the right to utilize the losses is subject to:

- Prior approval from the tax authorities (the request is due for submission until the end of March of the following year, and is usually followed by a tax inspection), and
- The taxpayer has covered the related losses in accordance with the Trading Company Law.

Capital gains and losses

There is no specific tax treatment for capital gains or losses, i.e. any such gains or losses will be included in the profit or loss for the year and taxed if such profits are distributed.

Withholding tax

Withholding tax (WHT) at a rate of 10% is to be withheld by the payer when certain types of income are paid by a Macedonian entity to foreign legal entities, provided that the income is not derived through a permanent establishment of the foreign legal entity in Macedonia.

The following types of income realized by foreign residents are generally subject to WHT:

- Dividends
- Interest
- Royalties
- Entertainment or sporting activities
- Management, consulting or financial services
- Research and development services
- Telecommunication services
- Insurance and re-insurance premiums
- Rental of real estate located in Macedonia.

If there is a Double Tax Treaty (DTT) existing between Macedonia and a foreign country where the recipient of income is considered a tax resident, the provisions of the DTT prevail over the Macedonian legislation, meaning that lower rates can be applied on the income if provided by a particular DTT. If not, the provisions of the PTL will apply.

For an overview of the withholding tax rates applicable under the DTTs, please see the table below.

State	Dividends (%)	Interest (%)	Royalties (%)
Albania	10	10	10
Austria	15/*	0	0
Azerbaijan	8	8	8
Belarus	15/5*	10	10
Belgium	15/10*	15	10
Bulgaria	15/5*	10	10
China	5	10	10
Croatia	15/5*	10	10
Czech Republic	15/5*	0	10
Denmark	15/5*	0	10
Estonia	5/0*	5	5
Finland	15/0*	10	0
France	15/0*	0	0
Germany	15/5*	5	5
Hungary	15/5*	0	0
Iran	10	10	10
Ireland	5/0*	0	0
Italy	15/5*	0/10*	0
Kosovo	5/0*	10	10
Latvia	15/5*	5	10/5*
Lithuania	10/0*	10	10
Luxembourg	5*	0	5
Moldova	10/5*	5	10
Netherlands	15/0*	0	0
Norway	15/10*	5	5
Montenegro	15/5*	10	10
Morocco	10	10	10
Poland	15/5	10	10
Qatar	0	0	5
Romania	5	10	10
Russian Federation	10	10	10
Serbia	15/5*	10	10
Slovakia	15/5*	10	10
Slovenia	15/5*	10	10
Spain	15/5*	5	5
Sweden	15/0*	0/10*	0
Switzerland	15/5*	0/10	0
Taiwan	10	10	10
Turkey	10/5*	10	10
Ukraine	10/5*	10	10
United Kingdom	15/5*	10/0*	0

Remark

* The reduced rate can be applied under specific circumstances.

The application of the DTT provisions with regard to particular income is subject to approval from the Macedonian tax authorities following a separate formal procedure.

Tax paid abroad

Resident taxpayers have the right to credit tax paid abroad in accordance with the provisions of the respective DDTs up to the tax determined by applying the domestic tax rate of 10%.

Grouping/consolidated returns

As of 1 January 2009, the profit tax consolidation is no longer applicable.

Corporate tax incentives

The following corporate tax incentives are provided by the Macedonian Profit Tax Law:

- A ten-year tax holiday may be granted to an entity carrying out business activities in a technological industrial development zone
- The tax base is reduced by the prior year's profit that is reinvested in tangible assets (such as real estate, facilities and equipment) and intangible assets (such as computer software and patents) used for expanding the business activities of the entity.

The assets for which this incentive is utilized must not be disposed of for a period of five years from the year the investment was made. An entity that is obliged to introduce and use equipment for registering cash payments can reduce its profit tax liability by the acquisition cost of up to ten electronic cash registers. An approval from the tax authorities is required in order to use this incentive.

Value added tax (VAT)

Generally, VAT is due on the supply of goods and services in the country sold/carried out from the taxpayer in the course of their economic activities. "Supply" refers to goods or services provided in exchange for consideration. However, certain transactions carried out for no consideration are also considered to be supplies, for example, private use of business assets.

The following transactions are generally subject to Macedonian VAT:

- Supplies of goods or services whose place of supply is in Macedonia; and
- Import of goods into Macedonia.

Tax regime and place of supply of goods

Import

The import of goods is subject to Macedonian VAT and is payable by the importer to the customs

authorities. Upon importation of goods, VAT is calculated by the relevant customs authorities conducting the procedure for customs clearance.

Exports

Goods exported from Macedonia, as well as services related to the export (e.g. international transportation) are zero rated (exempt from Macedonian VAT with the right to input VAT credit for purchases related to export), subject to specific documentation requirements.

Supply of goods with installation

The place of supply of goods that are also installed by the supplier or by a third party on behalf of the supplier is the place where the goods are installed.

Supply of electricity, gas, heating and cooling

The supply of electricity, gas, heating and cooling is deemed a supply of goods for Macedonian VAT purposes and the place of supply is considered to be the place where these types of goods are received.

Place of supply of services

The general rule is that the place of supply of services is the place where the supplier of services has headquarters or a branch office, from where such services are physically supplied. When there is no such place, the place where the supplier of services has a permanent place of living or residence is considered the place of supply of the services.

A number of exceptions from the above general rule are listed in the Macedonian VAT law. These exceptions mainly relate to the following:

- The place of supply of services connected to real estate (e.g. renting out real estate, agency services related to real estate, valuation, construction, supervision of construction works) is the place where the real estate is situated.
- The place of supply is the place where the services are physically carried out for the following types of services:
 - Artistic, sporting, educational, scientific and entertainment services;
 - Transport and associated services; and
 - Valuation and work on movable property.
- The place where transport services are supplied shall be the place where the transport takes place, having regard to distances covered.
- The place of supply of agency services in relation to services is the place of supply of the underlying service in connection to which the agency services were supplied.
- The place of supply of certain services is considered the place where the recipient of the services is established or has a fixed base for which the services were carried out. These services mainly include the following:
 - Advertising services
 - Banking and financial services, insurance and re-insurance services, with the

exception of the hiring of safes

- Obligations to refrain from pursuing or exercising, in whole or in part, an act or a right, or bear an action or a factual situation
- Legal, economic and technical advice and consulting, in particular activities of public notaries, solicitors, auditors, tax consultants, accountants, engineers, as well as other like activities
- Services for electronic data processing and provision of information, including know-how and expertise
- Provision of personnel
- Hiring of movable tangible property with the exception of all forms of transport
- Telecommunication services
- Transfer and assignment of copyrights, patents, licenses, trademarks and other like rights and
- Services of agents when they procure for their principal the services listed above.

Registration for VAT purposes

Mandatory VAT registration

VAT can be charged only by VAT registered persons. Mandatory VAT registration applies for all taxable persons carrying out independent business activity if their annual VAT taxable turnover for the last calendar year exceeded MKD 1 million (approximately EUR 16,260). Taxpayers whose VAT taxable turnover during the year exceeds the above threshold are obliged to make a VAT registration after the month in which the threshold is reached.

VAT exempt supplies of goods and services (without the right to input VAT credit for related purchases) are not taken into consideration when the VAT registration threshold is calculated.

Voluntary registration

Any taxable person who does not meet the requirements for mandatory VAT registration but carries out an independent economic activity in the country has the right to register for VAT purposes on a voluntary basis at the beginning of each calendar year (or upon the starting of economic activity) without fulfilling the threshold requirements.

VAT registration procedure

In order to register for VAT (under the mandatory or voluntary procedures), the taxable person must file an application in the relevant territorial directorate of the Public Revenue Office. On the basis of the application, the Public Revenue Office will record the registration in the VAT taxpayers register and will issue a VAT Registration Document.

Deregistration

Generally, a VAT registered person remains registered for VAT purposes for a period of at least five calendar years, regardless of the amount of the total supplies performed by the taxpayer. In specific circumstances, a taxpayer may be deregistered for VAT purposes before the expiry of the five-year period based on a decision issued by the relevant tax authorities. VAT registered persons can apply for deregistration if the total amount of the VAT taxable turnover of the registered person in the fifth calendar year does not exceed the registration threshold. Furthermore, the tax authorities are entitled to deregister a VAT registered person if certain conditions stated in the VAT Law are met.

VAT grouping/VAT consolidation

Two or more VAT registered persons can apply for VAT grouping (VAT registration as a single VAT taxpayer), if so decided by them due to ownership, organizational or management relations.

VAT period

Generally, under the Macedonian VAT law, the VAT period is the calendar month. The VAT period may be the calendar quarter if the total VAT taxable turnover of the VAT registered person does not exceed MKD 25 million (approximately EUR 405,910).

The deadline for submitting VAT returns is the 25th day of the month following the relevant tax period.

VAT rates

Standard rate

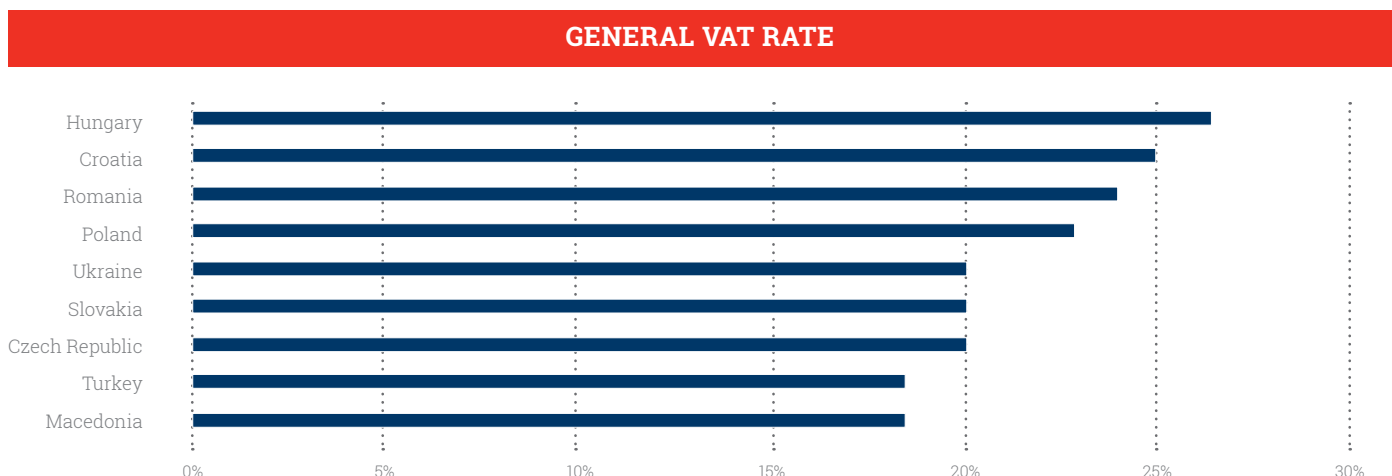
The standard VAT rate that applies to most VAT taxable supplies is 18%.

Reduced rate

A reduced VAT rate of 5% applies mainly to supply of the following goods and services:

- Food products for human consumption
- Fodder, fodder additives and livestock
- Baby products and school accessories
- Agricultural equipment and mechanization, seeds and planting materials for production of agricultural crops, fertilizers and materials for plant protection
- Drinking water provided from public systems
- Publications, except for publications mostly related to advertising and publications with pornographic content
- Pharmaceuticals and medical devices
- Machines and software for automatic processing of data and their units (computers)
- Solar heating systems and their components and transportation of passengers and their luggage
- Medical equipment and other devices for the purpose to facilitate or treat a disability for the personal use of disabled persons
- Communal and waste disposal services
- Hotel accommodation services
- Supply of new apartments for residential purposes sold within five years after they are constructed.

A reduced VAT rate of 5% applies to goods and services which are listed in a government decision.



Source: Invest Macedonia

Recovery of input VAT

A Macedonian VAT registered person is entitled to recover input VAT in respect of taxable supplies from another VAT registered person or in respect of imported goods if they are used for the purposes of business activities. The input VAT credit claimed by a VAT registered person must be supported by an invoice or customs declaration where the VAT charged on import is separately shown, and these documents are recorded in the accounting documentation of the taxable person.

Generally, a VAT registered person is not entitled to recover input VAT on:

- Purchases used for the performance of VAT exempt supplies such as financial services, insurance, renting of real estate for dwelling purposes, education, health care services, and others (see Section Exempt supplies with no right to input VAT credit for the related purchases above)
- Purchases of passenger cars (except for cars equipped for special purposes), motorcycles and aircraft; purchases of fuel, spare parts and services related to the repair and maintenance of such means of transport; renting such means of transport (excluding the acquisition of passenger cars or means of transport for certain predefined purposes such as resale, leasing and taxi/courier service)
- Purchases used for representation and entertainment purposes
- Purchases related to office equipment
- Purchases related to hotel accommodation.

A VAT payer is entitled to partial VAT recovery in respect of purchases which are used to perform both supplies qualifying for recovery and exempt supplies. Partial recovery will be based on the ratio of qualifying for recovery of taxable supplies to total supplies.

The right to input VAT is possible in the relevant calendar period when a VAT registered person purchases the goods and services in question, and if all the conditions of the VAT law are fulfilled.

Reimbursement of VAT

If, in a given month, the input VAT deduction declared by a registered person exceeds the amount of output VAT charged, the excess amount is subject to reimbursement. The VAT for reimbursement is generally offset against VAT payables in subsequent periods, unless the VAT registered person has explicitly requested a refund. The term for a VAT refund is 30 days from the filing of the respective VAT return.

VAT claimed for refund is offset against other public payables (for taxes or penalty interest for late payment) of the taxpayer.

VAT refund for non-residents

According to the VAT law, foreign entities registered for VAT purposes in their countries, which are not headquartered in Macedonia and which do not have a fixed establishment there, are entitled to recover the VAT paid for particular purchases of goods and services in Macedonia, upon their request. In order to apply for a VAT refund, the foreign taxable person must meet certain conditions and complete a statutory procedure. The principle of reciprocity applies with regard to foreign entities entitled to claim refunds of Macedonian VAT.

In order to be entitled for a refund of Macedonian VAT, a foreign person registered for VAT purposes in their country of residence must meet the following conditions:

- The foreign person did not perform supplies on the territory of Macedonia, or
- The foreign person performed only supplies related to import, export and transit (exempt from VAT with the right to an input VAT credit for purchases related to them), or
- The foreign person performed only supplies for which an obligation of the Macedonian acquirer of the goods, or recipient of the services, was to apply the reverse charge mechanism. A refund of Macedonian VAT can be claimed by non-resident persons registered for VAT purposes in their countries for purchases of goods and services from Macedonian VAT registered persons, provided that the foreign person possesses a regular invoice with VAT separately shown. The amount of the relevant invoice should have been paid and the foreign person is able to prove the executed payment.

Generally, the VAT refund application must be accompanied by the original invoices or customs declarations on the basis of which the VAT refund is claimed, as well as a certificate issued by the competent tax authorities from the country in which the person is established evidencing

that the person performed economic activity during the calendar year when the right to claim refund of Macedonian VAT arose.

The minimum amount of VAT that can be claimed for refund is MKD 30,000 (approximately EUR 490) for one or several consecutive months in the calendar year. The deadline for VAT application submission is 30 June in the year following the year in which the purchases were made.

The Macedonian tax authorities have six months to review the application for a VAT refund submitted together with the documents attached to it and make the refund. VAT refunds from the Macedonian tax administration are made only in MKD, which implies that a non-resident needs to open a non-resident bank account in order to obtain a VAT refund.



EMPLOYMENT REGULATIONS

Legislation

The major items of legislation which govern employment and labor relations in Macedonia are the Law on Labor Relations (LLR), the Collective Agreements, the Law on Employment and Work of Foreigners and other legal acts. The LLR regulates the implementation of the rights, obligations and responsibilities of employees and employers, namely:

- Conclusion, amendment and termination of employment contracts
- Working hours, absences and holidays
- Employment discipline
- Compensation and contractual liabilities of the parties to an employment contract
- Special protection for some categories of employees.

Legal requirements are also provided for in the Law on Health and Safety at Work, the Law on Personal Data Protection, as well as in a number of ordinances adopted on the basis of the LLR and the above-mentioned laws.

One of the main goals of the Macedonian employment legislation is to create a minimum level of protection for employees. As a result of this, the LLR, as well as the other relevant Macedonian legislation, contains numerous mandatory rules and regulations which an employer hiring employees in Macedonia must abide by and comply with.

Employment contracts

Contract forms and obligation for notification

Employment contracts must be concluded in writing. An employment contract is kept at the business premises of the employer. One copy of the employment contract must be given to the employee on the day of its signing.

The employer is obliged to notify in writing the respective division of the Employment Agency of the following circumstances:

- Signing of each employment contract – one day before the employee commences work
- Termination of an employment contract – within eight days after its termination.

Types of employment contracts

The LLR regulates the following major types of employment contracts:

- Contracts concluded for an indefinite period of time (contracts with an indefinite term) and
- Contracts concluded for a fixed period of time (contracts with a fixed term).

The most common and generally accepted type of employment contract in Macedonia is the contract with an indefinite term. It gives better protection to the employee's rights and interests as it provides more stable and long-term employment. Therefore, an employment contract concluded for an indefinite period of time cannot be transformed into a fixed-term contract without the prior written consent of the employee.

Under the fixed-term employment contract, the parties determine the period for which the contract shall be valid and binding. A fixed-term employment contract can be concluded for work which lasts for a definite time period, with or without termination up to five years.

In case of the continuation of employment after the expiry of a fixed-term employment contract, it will be transformed into a contract with an indefinite term for employment. The LLR also sets out the possibility for an employment contract for seasonal work, part-time employment, with a probation period and employment contracts as a trainee, for the purposes of vocational and independent work in the profession. The maximum duration of such a training period is one year.

Working hours

The LLR contains mandatory provisions determining regular working hours under an employment contract in Macedonia. The regular working week is 40 hours comprised of five working days of eight hours each. These are in fact the maximum working hours which the parties to an employment contract can negotiate, unless otherwise provided for in the LLR. The Law sets out mandatory limits for working hours within the working day and week, in order to protect the rights of employees and to prevent an employer from imposing extended working hours.

All exceptions to the regular working week are expressly stipulated in the LLR. A requirement to work more than the regulated hours is always compensated for by the employer, in a way provided for under the LLR. Special regulations cover part-time work, shift work, including night shifts and overtime. These provisions vary depending on the labor category of the employee and the associated working conditions.

Holidays

Full-time employees are entitled to at least 20 working days of annual paid holiday. Certain categories of employees are entitled to additional holidays in a way provided for under the LLR. The official holidays are listed in the Law on Holidays of the Republic of Macedonia. The Government can designate additional official holidays.

Medical check-ups

All employees must undergo periodic medical check-ups. Their frequency depends on the labor category, working conditions and the employees' age as determined by the Minister of Health, but they must be performed at least once every 24 months for all employees. Associated expenses are the employer's responsibility.

Healthy and safe working conditions

One of the main obligations of the employer is to provide healthy and safe conditions at the workplace. The Law on Health and Safety at Work aims to secure greater protection of the employees' life, health and working capacity by holding the employer responsible for the conditions under which employees have to carry out their employment obligations.

Employees acquire protection at work in compliance with the prescribed measures and standards of work protection in accordance with the LLR and the Law on Health and Safety at Work. Employees are required to observe the measures for protection at work and to perform the duties carefully in order to protect their and other people's lives and health.

If the stipulated measures for protection of work have not been implemented, employees may legally refuse to work, should their lives or health be under direct threat. The fulfillment of the above obligations by employers is subject to inspection and control by the state labor authorities, which are entitled to impose fines in case of non-compliance with the rules and the standards for healthy and safe working conditions.

Termination of employment contracts

Employment contracts may be terminated either by the employer or employee in writing. The LLR determines cases in which employment is terminated with and without a notice period. Generally, the notice period must be at least one month preceding the termination of employment contract by the employee, but not exceeding three months.

For termination by the employer of employment contracts covering more than 150 employees or 5% of the total number of employees, the notice period is two months. The procedure for collective redundancy includes mandatory obligations for the employer.

Working in Macedonia (Foreign nationals)

The Law on Employment and Work of Foreigners regulates the employment of foreign individuals in Macedonia. According to the provisions of the Law, foreign individuals, or individuals without citizenship of any country, can be employed in Macedonia upon obtaining a work permit. The Employment Agency of the Republic of Macedonia issues a work permit upon an employer's or a foreigner's request.

Work permits

Foreign nationals may work in Macedonia only after obtaining a work permit unless the conditions stated below for foreigners who do not generally require a work permit apply. The basis for obtaining a work permit is an employment contract or a business trip to undertake certain activities.

Work permits are issued as follows:

1. Personal work permit;

2. Employment permit; and
3. Work permit.

A personal work permit is issued for a fixed-time period up to one or three years, or for an indefinite time period upon request of the foreign national who intends to perform their own business activity in Macedonia. An employment permit in general is issued for a period up to one year, unless otherwise determined by the Law.

Work permits are issued for various time periods depending on their purpose. Only one valid work permit may be issued to foreigners for a certain period. Work permits in general are issued by the Employment Agency on the basis of an application submitted by an employer, unless otherwise determined by the Law. A number of legal terms and conditions must be met for the permit to be issued. Certain positions which require Macedonian citizenship are not available to foreign nationals.

Foreign nationals who may work on short-term assignments without a work permit

Foreign nationals may be engaged to perform short-term assignments only upon prior mandatory registration with the Macedonian Employment Agency and subject to the following conditions:

- Contractual services provided by foreign artists and professional authors
- Services related to commercial fairs
- Short-term services provided by foreigners
- Services related to the supply of goods and post-sale services
- Work performed by foreigners residing in the Republic of Macedonia for the purposes of studying and services in cases of emergency.

For all other categories of employees, a work permit is required. The work permit is issued provided that all requirements of the law are met. Generally, employers must register the commencement and discontinuation date of the work performed by foreigners at the Employment Agency.

The Employment Agency shall issue a certificate to the person responsible for registering the work performed by foreigners



REAL ESTATE REGULATION

The major legislative acts governing real estate and real estate transactions in Macedonia are the Constitution of the Republic of Macedonia, the Law on Ownership and Other Property Rights, the Construction Law, the Law on Construction Land, the Law on Privatization and Lease of Construction Land on State Property, the Law on Real Estate Cadaster and the Law on Obligations.

Types of ownership over real estate

Ownership of real estate in Macedonia is public or private.

Public properties are properties of common interest, as well as those designated for public use and public functions, such as national roads, forests and parks, streets, squares, museums, schools.

Properties of common interest are state owned, and can be used by all legal entities and individuals. These properties are managed by the Republic of Macedonia through the authorized administrative department in question. They can be ceded to third parties through concession or long-term lease upon fulfillment of the conditions provided for in the law.

Properties of common interest cannot be subject to disposal (i.e. sale purchase, donation, in-kind contribution, exchange) and cannot be acquired on the basis of possession and expired prescription period.

Real estate in Macedonia can be owned by one or more individuals/entities. When it is owned by two or more individuals/entities, the ownership right can be established as co-ownership or joint ownership. The difference between these two types of ownership is that each owner's share in co-ownership is determined proportionally (ideal part) and in case of joint ownership each owner's share is definable, but it is not determined in advance.

Apartments, business premises, garages, and other specific elements of residential and business buildings which have two or more apartments, business premises and other specific parts, can be owned by different individuals and legal entities (condominium ownership). All individual titleholders have exclusive rights over the common parts of the buildings (facade, roof, stairs, hallways, elevators, and others).

Evidence of title

The ownership title and limited property rights to real estate property in Macedonia are evidenced by ownership title documents (usually in the form of a notary deed). The law requires that title documents be registered in the Real Estate Cadaster Agency of the Republic of Macedonia. By virtue of this registration, the acquisition of the ownership title or limited property rights becomes effective with regard to third parties.

Acquisition of real estate

The real estate market in Macedonia has been fairly dynamic. Investments in real estate are taking place across all real estate sector segments: residential, office, industrial, retail, casinos, mixed-use developments and special-use properties.

Foreign individuals and legal entities, residents of Member States of the EU and the Organization for Economic Cooperation and Development (OECD) can acquire an ownership right to buildings and premises within a building, as well as a right of ownership and right of long-term lease to construction land (with a duration from 10 to 99 years) on the territory of the Republic of Macedonia, under the same conditions as citizens.

Foreign individuals and legal entities, non-residents of Member States of the EU and the OECD can acquire ownership rights to buildings and premises within a building, and rights of ownership and long-term lease of construction land (with a duration from 10 to 99 years) on the territory of the Republic of Macedonia, under reciprocity conditions. In Macedonia, foreign individuals or legal entities cannot directly acquire a right of ownership to agricultural land.

Title documents

The general rule under Macedonian law is that transactions involving real estate (e.g. purchase and exchange) must be executed with a notary deed before a registered notary in the region where the real estate is located. For other real estate transactions, such as contribution in-kind, sale of a commercial enterprise containing real estate properties and voluntary distribution agreement, signature notarization is sufficient. There are also special rules and procedures governing the acquisition of real estate arising from enforcement, insolvency and similar procedures.

Statutory costs

The statutory costs for direct acquisition of real estate, such as the sale, purchase and exchange, are as follows:

- Sales tax – the tax base for the sales tax on real estate and right shall be the market value of the real estate and right at the moment the liability occurs. The rate ranges from 2 to 4%. The tax may be shared between the parties or be borne by just one of them

- Fee for registration in the Real Estate Cadaster Agency of the Republic of Macedonia According to the statutory tariff, the minimum is EUR 5 for each registration, but depends on various aspects. The fee may be shared between parties or borne by just one of them
- Notary fee – according to the statutory Notary Tariff, not more than EUR 500 per transaction, but depends on various aspects. The fee may be shared between parties or borne by just one of them.

Title review

Notary publics have no legal obligation to review a title's ownership history, i.e. to review the title rights of the predecessors of the current owner.

As a general legal rule, the ownership title of the current owner depends on the rights of their predecessor while the rights of the predecessor, in turn, depend on the ownership title of the predecessor of the predecessor. Thus, if one of the previous owners did not have a clean and indisputable ownership title, this will reflect on the current owners, i.e. a third rightful party can claim the property right against the current owner.

The possibility of third party property claims is precluded by the so-called prescription period. According to the effective legislation, after the expiration of the prescription period, the current owner of the property is considered the rightful owner, regardless of the rights of their predecessors. The prescription period is 10 years in case of lawful and bona fide possession, and the absolute prescription period is 20 years in case of bona fide possession.

In this regard, usually before purchasing real estate, the buyer undertakes a title review of the targeted real estate, including the title's history. The purpose of such a review is to verify that there is/are:

- Clean, valid and marketable ownership title held by the seller – the seller must be, and their predecessors must have been, the valid owner of the targeted real estate, in order to avoid any risk for rescinding or annulment of the transaction.
- No liens or encumbrances over the property – the buyer must be fully aware as to whether there are any registered liens and/or encumbrances over the targeted real estate, e.g. mortgages, easements, interlocutory injunctions, going-concern pledges, limited property rights established in favor of third parties. A general principle in Macedonian law is that liens and encumbrances “follow the property”, i.e. registered liens and encumbrances can be enforced against the new owner.
- No other registered rights in favor of third parties – if there are registered rental or lease agreements over the targeted real estate, the buyer shall be bound by them until the expiration of their term.
- No court or restitution claims.
- No public debts of the seller which could lead to a forcible sale of the real estate by the state authorities.

Development

After the acquisition of real estate, the owner can commence its development. According to the Macedonian legislation, an investor may be the owner of the land, individuals entitled to long-term lease of the construction land (from 10 to 99 years), the concessionaire and individuals/

entities entitled to construction right on a legal basis (law, contract, etc.).

The main stages of development can be divided into:

- Regulation and planning stage
- Environmental impact assessment
- Permission for construction works and
- Execution of construction works and their use.

Regulation and planning

The construction must be in accordance with a Detailed Urban Plan (DUP) which is adopted by the municipality. The regulation and planning stage comprises the designing of a Basic Construction Project (BCP) which must be in accordance with the DUP and is the first precondition for commencing construction works. The BCP provides guidelines for the technical parameters of construction, the location of the site on a land parcel and fulfillment of the basic conditions of the construction.

Environmental impact assessment

Environmental impact assessments are required for real estate projects which are presumed to impact the environment, such as chemical factories, oil refineries, thermal power plants, agriculture, forestry and water supply facilities and industry facilities.

Permission for construction works

The next and main precondition for commencing construction works is obtaining a construction permit by the investor. Chronologically, the process starts with the investor's application submitted to the municipality in which the construction is to be executed. The law prescribes in detail the necessary documents and conditions that must be fulfilled in order for the respective permit to be obtained. Construction permits for construction of local importance are issued by the mayor of a municipality and, for the construction of general importance for the country, by a state authorized institution.

Execution of construction works and their use

The next development stage is the execution of construction works. The investor is obliged to carry out construction works and complete the building within a period up to 10 years from the date the construction work permit became effective.

During construction works, a number of standard-form acts and protocols must be compiled. The acts and protocols serve as evidence for the items that are recorded in them and they concern the commencement, execution and completion of the construction work. The participants in the development process who sign these acts and protocols are jointly responsible for the authenticity of the facts recorded in them.

The completion of construction works is certified by the issuance of a permit for use, or based on a technical review report prepared by a supervisor engineer if the constructed object falls in a specific category of construction. The permit for use is issued by an authorized body which has issued the permit for construction. In addition, the ownership of the structure must be recorded in the Real Estate Cadaster Agency of the Republic of Macedonia.

Mandatory participants in the development process

During the stages of the development process, the investor enters into relations with other participants, namely: the designer, compliance reviewer, contractor and the supervisory engineer (technical controller). The relations between the participants in the development process must be defined in a contract.

The designer of a construction is an individual with designer capacity who must be employed at a company registered in the Central Register of the Republic of Macedonia for performing designing activities. Both the designer and the company must have an appropriate design license. Designers are responsible for the preparation of the investment design. They also exercise control to ensure that construction works comply with the design (so-called "author's supervision") and are authorized to issue mandatory instructions to the contractor.

The compliance reviewer is an individual who has been licensed by the Chamber of Authorized Architects and Authorized Engineers to carry out evaluations to ensure that the construction work complies with the investment design. The compliance reviewer is responsible for the accuracy, quality and compliance of the design with the law, standards and norms for design and other technical requirements. The contractor is the legal entity registered with the Central Register of the Republic of Macedonia for undertaking construction works, for which it must possess license A and/or B issued by the Chamber of Authorized Architects and Authorized Engineers. The contractor is responsible for execution of the works in compliance with the approved design and permits, and the legal requirements applicable to such construction work.

The supervisory engineer (technical controller) is a civil engineer who manages the execution of the construction work on behalf of the contractor. If the construction work is executed by the investor themselves, they are obliged to appoint a supervisory engineer who must possess license A and/or B issued by the Chamber of Authorized Architects and Authorized Engineers.



MACEDONIAN REAL ESTATE MARKET

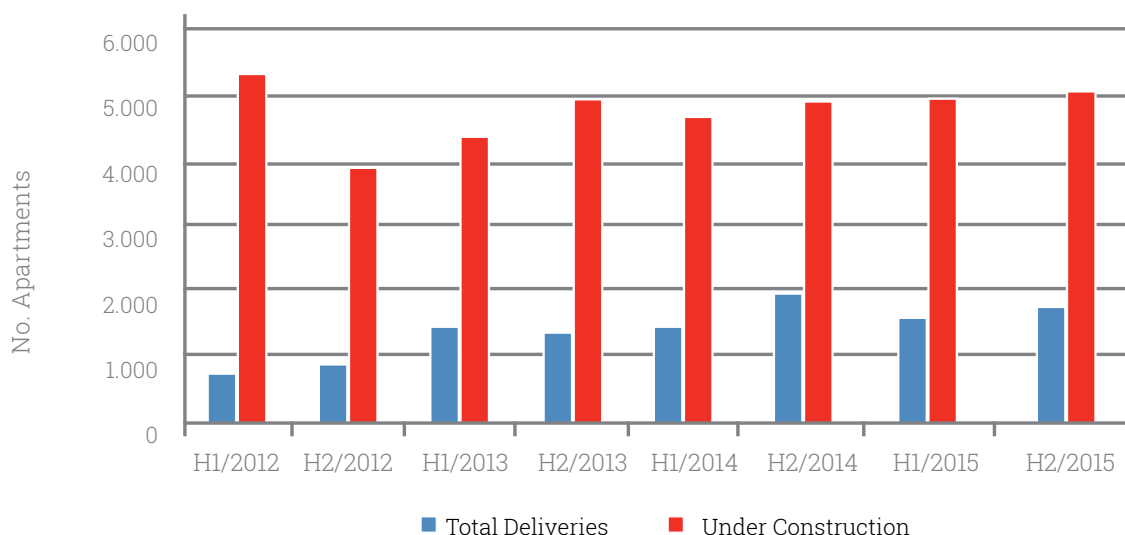
RESIDENTIAL MARKET OVERVIEW

The increased dynamics on the residential market continued in H2 2015 as the market observed high number of realized transactions. Namely, according to the data published by the State Statistical Office during H2 2015, the authorities issued building permits for buildings with total 2.444 apartments in Skopje. We have observed further increase in the number of realized transactions with new apartments compared to H1 2015. Primarily due to this factor as well as the decreased delivery, the total market supply decreased. The vacancy at delivery also is showing further downward trend. The increased market demand did not influenced the average market prices and they remained stable, at €979 per sq.m.

Residential units under construction

The number of residential units under construction increased compared to H1 2015. The total number of residential units under construction amounted 5,200. We are observing increased development interest for Municipality of Karposh during H2 2015, there were no other significant changes in the territorial distribution and most of these residential units are located in Municipality of Aerodrom, followed by Municipality of Centar and Municipality of Karposh.

RESIDENTIAL UNITS UNDER CONSTRUCTION AND DELIVERIES



Market supply

The total market supply was 3,800 residential units, a slight increase compared to H1 2015. The total new delivery on the residential market during H2 2015 increased by 9% to 1,640 new apartments delivered on the market. In terms of territorial distribution most of the market supply is concentrated in Municipality of Aerodrom (55%), followed by Municipality of Karposh (13%), and Municipality of Centar (12%).

Demand

Favorable financing conditions resulting from historically lowest interest rates together with historically lowest residential prices were major factors that continue to influence the number of transactions on the residential market to increase to 1,770 transactions i.e. by 10% more compared to H1 2015.

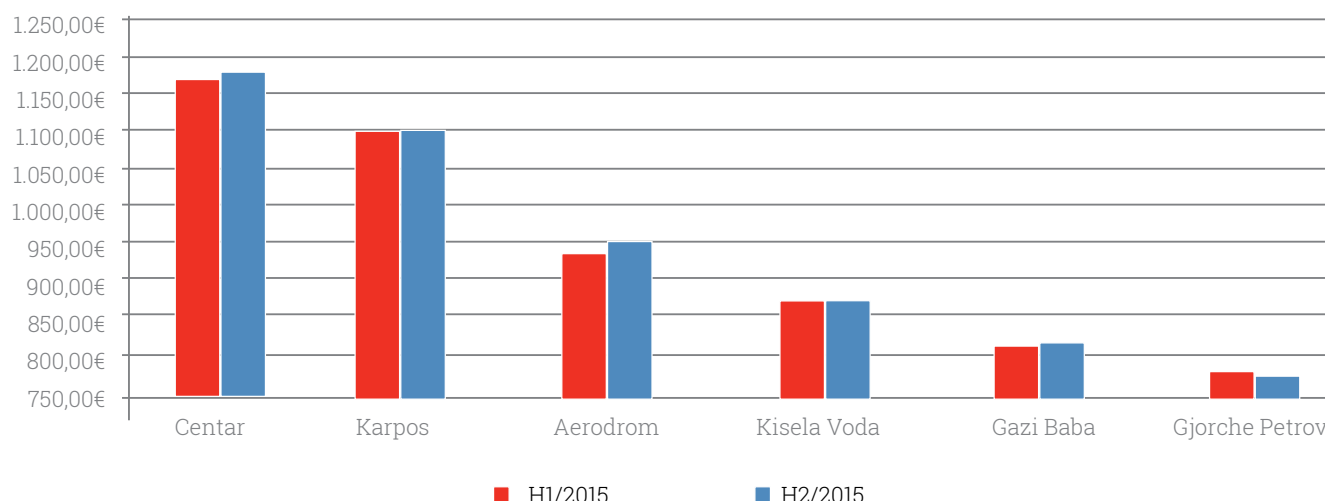
Vacancy at delivery

The market observed decrease in the vacancy at delivery in H2 2015. On average 32% of the new apartments were not sold at delivery date of the projects, compared to 36% in H1 2015. The decreased vacancy at delivery was mainly result of the increased market dynamics during the last six months of the year.

Market prices

The increased market demand did not influence the average market prices and they remained stable, at €979 per sqm. The average market prices in the municipalities that compose the bulk of the market transactions were as follows, Municipality of Aerodrom (€940), Municipality of Centar (€1,161) and Municipality of Karposh (€1,110).

AVERAGE PRICE (€/SQM) H2/2015



Market outlook

The favorable financing terms as well as the stable market prices enabled increase market dynamics over the last six months. We expect residential market prices in general to remain stable in the forthcoming period.

We anticipate the banks further to increase the competition on the housing loan market benefiting from the current low interest rate environment. According to the market research it is expected by the end of 2016 additional 3,800 apartments to be delivered on the market. The bulk, nearly 75% of the new delivery in this period will be in Municipality of Aerodrom, followed by increased supply in Municipality of Karposh, and Municipality of Centar. Municipality of Karposh and Centar is expected to be most attractive for the investors and the buyers due to the constant demand for apartments in these municipalities.

OFFICE MARKET OVERVIEW

The office market experienced moderate increase in stock in 2015. The class "B" office market stock increased by cca 9.000 sqm, while class "A" office market stock remained the same. Take-up figures increased by 19% in 2015 compared to 2014, indicating gradual revamping of office market in Skopje. There were no significant leases outside of Skopje for the analyzed period as city of Skopje remained the main point of interest for start-up businesses as well as for office expansion.

Rent levels remain roughly at the same level as in the first six months of 2015 with no major disproportions.

Supply

The total Skopje office stock amounts 286.281 sqm. The increase in the total stock compared to 2014 is based new office space delivered within SP Planet Shopping Center and three newly

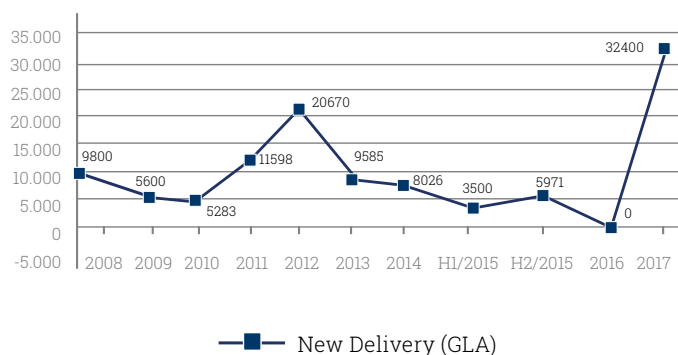
build parking garages (Razlovecko Vostanie, Solunski Kongres and Todor Aleksandrov) in Skopje, cca. 9.000 sq. m Class “B” office space. There were no new deliveries in Class “A” office segment. Class “A” office space share in the total stock is nearly 35%, and the rest of the office stock resides on Class “B” office space.

These office areas are distributed between more than 35 buildings, located in the Central Business District as well as in all other Skopje areas.

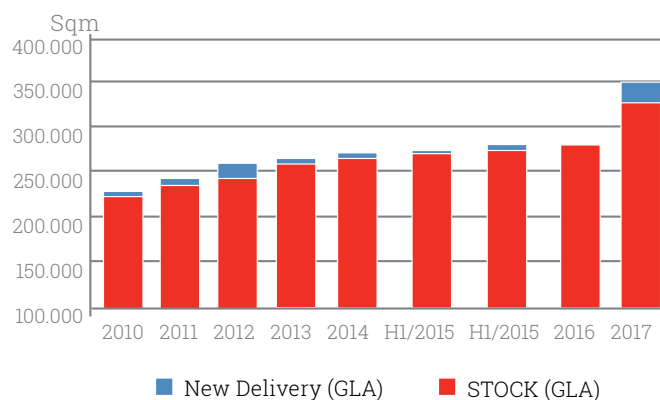
Office projects in pipeline that will deliver cca 32,000 new office space supply on the market in the following two years are as follows:

- Cevahir Sky City Mall, will deliver GLA 8.000 sq. m
- EMPORIO Business Center, will deliver 4.400 sqm
- ProCredit Bank HO, 5.000 sqm owner occupied office project;
- New MIDA Building, 4000 sqm;
- Mak Auto Star, 11.000 sqm;

SKOPJE OFFICE MARKET EVOLUTION OF NEW STOCK DELIVERY (Sq m)



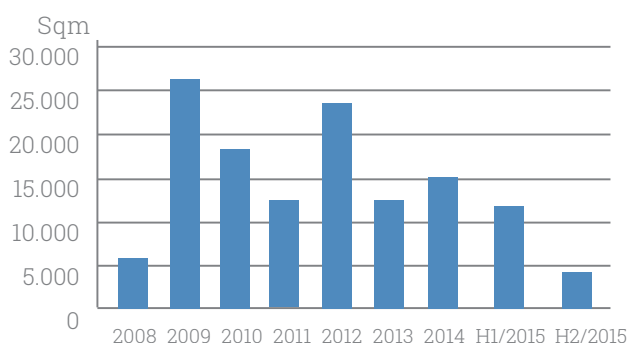
STOCK AND NEW STOCK DELIVERY



Take up/Demand

The take up for the H2 2015 decreased by 67% compared to H1 2015, resulting with total take up of 4.277 sq.m. This demand and take up was mostly driven by Telecom, IT and outsourcing services sector.

OFFICE SPACE TAKE UP / TRANSACTIONS



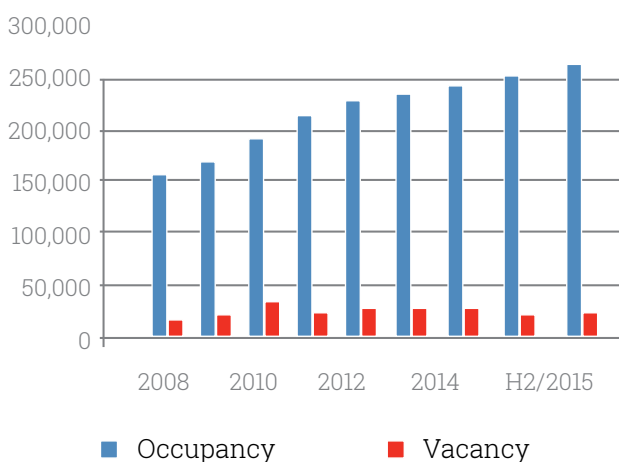
OFFICE BUILDINGS IN SKOPJE	GDI Sq m	Vacancy %
-------------------------------	-------------	--------------

Soravia BC	10.725	3%
Synergy BC	6.067	0%
Hyperium	5.940	8%
City Plaza	4.255	5%
Mida BC	3.104	5%
Palace Macedonia	2.900	2%
Grawe BC	2.007	9%
Veve BC	1.732	0%
Postenska	3.206	44%
Neocom	6.624	54%
Sectron BC	1.271	18%

Vacancy

Class “A” office space market vacancy to increase from at the end of 2015 was 5,46%, while the vacancy in Class “B” office market segment increased from was 12,7%.

MARKET EVOLUTION OF VACANCY



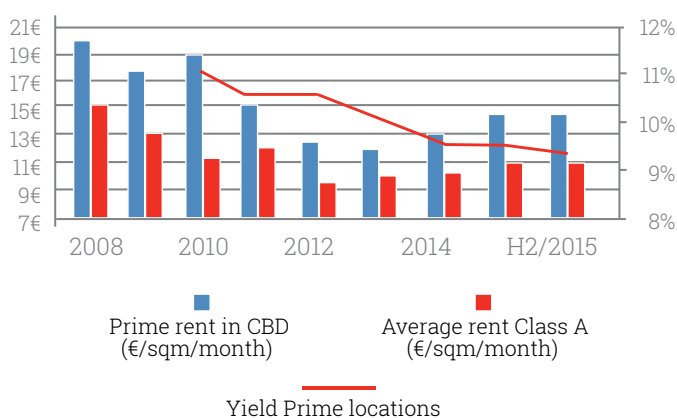
Rents

Rent levels on the office market show slight decrease compared to the rent levels of H1 2015. The prime location monthly rents in Class “A” segment of the market remained in the range €11-14 /sqm/month. Due to the lack of supply, upward trend in rent levels is expected over the next two years. The average rent levels, segmented by location and building grade are within the following respective ranges:

Class A Office Buildings:
Prime Location Segment:
• €11 to €14 / sqm;
Inner City Segment:
• €8 to €11 / sqm;

Class B Office Buildings:
Prime Location Segment:
• €7 to €10 / sqm;
Inner City Segment:
• €5 to €7 / sqm;

EVOLUTION OF RENT LEVELS



Yield expectations for prime locations slightly increased in 2015, to 9.35% for Class “A” office projects, and to 10.5% for inner city locations. This yield increase relates to prolonged political risk and related uncertainties.

Forecast

Further decrease in market vacancy, especially in Class “A” segment, is expected since there are no new commercial office projects in pipeline. Market is observing increased interest of local investors for partnership with international companies to invest in “Built-to-suit” projects including restructuring projects for transformation and refitting of underperforming retail space into office space.

We expect the market to experience upward trend of rent levels in Class “A” segment resulting from increased demand and limited supply of Class “A” projects on the market. The future take-up and demand will continue to be driven mostly by foreign investors from the IT, financial industry and outsourcing services sectors.

The office stock by the end of 2017 is expected to increase sizably. Namely, the new projects announced to be supplied on the market by 2017 will increase the total market supply with additional office space in excess of 32.000 sqm.

Investment Focus

Foreign investors from the manufacturing, IT and outsourcing services sector continue to favor the country for their operations in the Technological Industrial Zones as well as outside these zones using the favorable climate in terms of regulatory relief and favorable tax conditions. The general downward trend in vacancy, registered in the last two years, due to lack of new projects and constant increase in the demand lowers the risk of investment in Class “A” office projects.

These trends increase attractiveness of office real-estate investments over other long term financial investments. We expect this to be seen as an investment opportunity by the institutional investors present on the market, especially life insurance companies and pension funds, being fastest growing segment on the financial market.

RETAIL MARKET OVERVIEW

The stock of modern retail space decreased compared to the previous six months due to decrease of the retail space in the retail gallery segment. The construction activities in the projects in pipeline, Emporio Mall and Cevahir Sky City Mall, both in Skopje continued to progress in 2015.

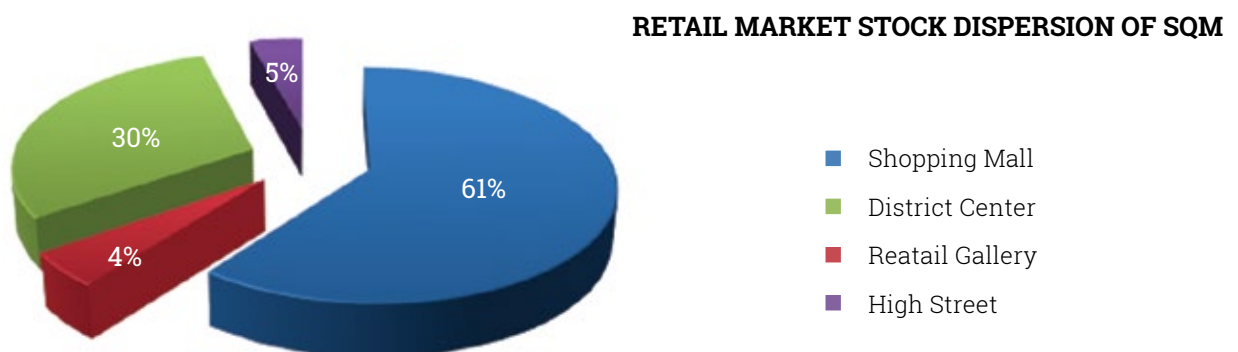
The supermarkets remain among the most active segment of the retail market. In 2015 the market recorded a number of transactions related to new leases amongst which most active were Ramstore supermarkets from the international chains and Tinex Markets, Zito Markets, and KAM from the domestic chains. In the fashion and sport segment, LC Waikiki opened a new store in Ramstore Mall in Skopje and also opened the first store in Bitola, Sport Vision counts a total of 5 new stores, Djak Sport and Intersport as well continued the expansion with new leases in Skopje, Kumanovo and Tetovo. Domestic pharmaceutical chain Zegin marked notable expansion with 13 new units, reaching a total of 105 pharmacies. The new retail chain Zegin Healthy food was established in 2015 with 13 units. Expansion is covering both the capital and several secondary cities.

There were no major shift in the market rents during H2 2015 i.e. in general rental levels remain the same.

Supply

The total Skopje retail stock in 2015 remained on the level of 2014 i.e. 173.923 sqm. Structure wise, the retail market remains dominated by the shopping mall segment with 60,7% share, followed by the district centers segment with 29,8% and retail galleries with 3,9%.

In 2015 the construction of Emporio Mall in Skopje (mix use project, GBA 30.000 sqm, retail GLA 5.770 sqm) as well as Cevahir Sky City Mall (mix use project, GBA 170.207 sqm, retail GLA 18.000 sqm) continues with increased dynamics. Forton Macedonia is exclusive leasing agent for both concepts. These two projects are expected to further increase the market supply and enable further expansion of the growing retail chains already present on the market as well as other retailers targeting Skopje for further expansion.



Demand

The demand was driven mostly by the supermarket and grocery sector, but comparing to 2014 also by the developing projects. In general, all food sectors continued to be market outliers,

expanding significantly faster compared to other retail sectors. Middle segment fashion brands were also active on the market, as well as several upper segment fashion brands.

High street

Ongoing construction works make the Skopje high street segment unattractive due to limitations in footfall. Another obstacle for fashion brands which are already operating in the shopping malls is the shortage of right-size units that meet their criteria. There were no significant new transactions on the high street segment and no major developments in terms of occupancy levels. The market rents and the vacancy levels remained relatively stable compared to 2014.

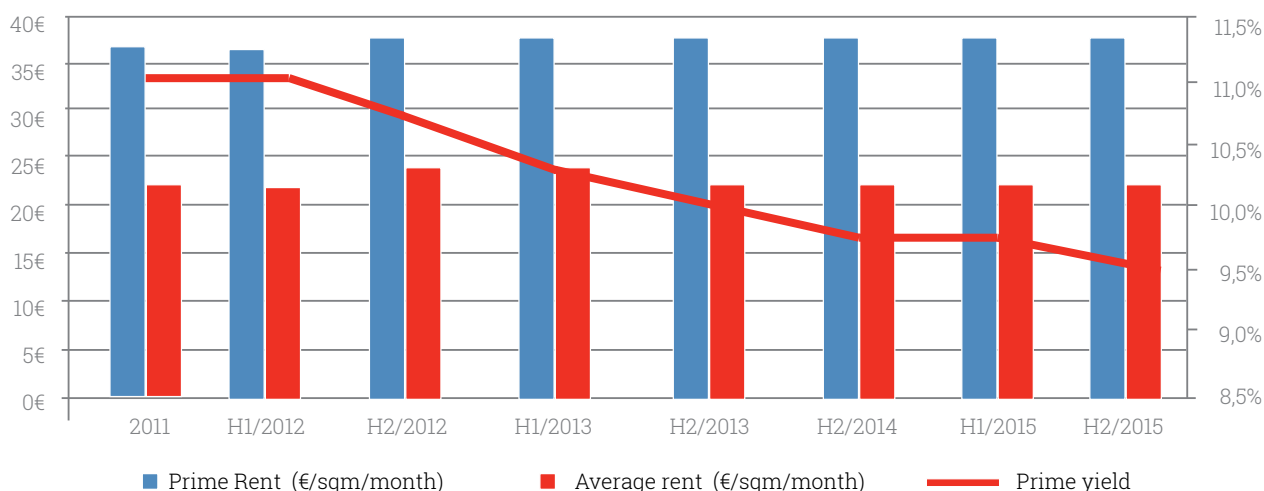
Rents

The shopping mall prime rents remained stable during 2015. The average shopping mall prime rents remained on the level of €39/sqm/month. Second-tier markets prime rental levels ranged €17-20/sqm/month. High street prime rents (80 – 100 sqm ground floor locations), ranged €26-30/sqm/month noting a drop of 14 % compared to H1 2015. Same conclusion can be driven for district centers.

Prime yield expectations remained stable during 2015 reflecting the stabilization of the retail market risk mainly related with decreased vacancy in the shopping mall segment and improved tenant stability.

TYPE OF RETAIL	PRIME RENT €/sqm	UNIT SIZE (sqm)
Shopping Mall	39	70-110
Retail Gallery	28-33	70-110
District Center	14-17	80-100
High Street	25-30	80-100

EVOLUTION OF PRIME RETAIL RENTS



Vacancy

The general retail market vacancy was 19% (35.814 sqm), registering increase compared to 2014. The increase in vacancy levels mainly results from increased vacancy District Centers and

Retail Gallery Segment. The increasing trend of vacancy in GTC continues this semester also.

The vacancy in the shopping mall segment, at the end of 2015 was 11,9%. Ramstore Mall and Capitol Mall managed to slightly decrease their vacancy, while Skopje City Mall recorded slight increase in the vacancy level. The announced reconstruction of GTC, following the unsuccessful referendum, further affects the concept notably increasing the vacancy which increased to 40% in H2 2015.

The vacancy in the retail galleries and district centers shows a false decrease due to refitting big retail areas into office premises. However the remaining retail areas in most of the retail galleries and district centers note further increase in the vacancy levels.

Forecast

New modern retail space stock is expected to be delivered in 2017, with announced opening of Emporio Mall and Cevahir Sky City Mall in Skopje. The restructuring of underperforming and out-of-date retail schemes will continue to generate activity in the forthcoming period as some of the underperforming retail spaces are transformed into office space. The established international retailers in the capital will continue to search for opportunities to expand their chains in the secondary cities. If the economic outlook continues in the positive path with further increase in foreign direct investments and further unemployment decrease, we expect the attractiveness of the retail real-estate market to catch focus of both international and domestic investors. This expansion is expected mainly in shopping mall segment and build-to-suit big box concepts.

Investment Focus

Besides the shopping mall projects already in pipeline the retail market potential in Skopje can absorb further expansion in the shopping mall segment and build-to-suit big box concepts located in retail or mixed use parks. The supply of retail space per 1000 inhabitants is still significantly below the respective European standards. Further decrease in unemployment rate recorded in 2015 together with the preserved growth path of the economy are factors that can be accounted in favor of further retail expansion.

HOTEL MARKET OVERVIEW

2015 was marked with the opening of iBis Hotel and Opera House Hotel. These two hotels increased the market supply with additional 126 hotel rooms. Thus the high-end hotel supply in Skopje six 4-star and six 5-star hotels is totaling 799 hotel rooms. In 2015 there were no capital market transactions leading to a change in the ownership structure of the major hotels. The average occupancy level of the hotels was 50,5 %. Compared H12015, the ADR increased to €126, and RevPAR increased to €62.

MAIN HOTELS IN SKOPJE AND OCCUPANCY (IN %)

NAME	Grade	Location	Weekdays	Weekend
Aleksandar Palace	*****	West	40%	30%
Holiday In	*****	Centar	65%	40%
Stone Bridge	*****	Centar	50%	40%
TCC Grand Plaza	****	West	40%	30%
TCC Plaza	*****	Centar	40%	30%
Arka	*****	North	30%	30%
Best Western Tourist	****	Centar	75%	50%
Karpos	****	West	40%	30%
Best Western Bellevue	****	East	60%	45%
Hotel Solun	****	Centar	60%	30%
Hotel Russia	****	East	65%	60%
ibis Hotel	****	Centar	65%	40%

Occupancy

The average occupancy rate of 4-star and 5-star hotels in Skopje is 50.5%. The occupancy of the hotels in Skopje is lower than the forecasted average occupancy of the hotels in major European cities (68.8%).

TOP HOTELS IN SKOPJE AND FRONT-END RATE H2 2015 (SINGLE ROOM)

NAME	Grade	Location	Year	Rooms	Price/Room
Aleksandar Palace	*****	West	1999	135	157 €
Holiday In	*****	Centar	2000	178	129 €
Stone Bridge	*****	Centar	2005	30	138 €
TCC Plaza	*****	Centar	2004	25	76 €
Arka	*****	North	2003	28	88 €
TCC Grand Plaza	****	West	2012	28	86 €
Best Western Tourist	****	Centar	2002	74	126 €
Karpos	****	West	2004	59	69 €
Glam	****	West	2001	19	78 €
Hunting House Kamnik	****	West	2006	8	65 €
ibis Hotel	****	Centar	2015	110	55 €
Best Western Bellevue	****	East	2007	32	62 €
Opera House	****	Centar	2015	16	76 €
Hotel Russia	****	East	2014	61	85 €
Hotel Solun	****	Centar	2013	57	117 €

Rates and performance

The occupancy of 4-star and 5-star hotel in Skopje mostly depends on business, rather than leisure purposes. The tourists visiting Skopje for leisure purposes usually occupy lower rate

hotels. The front-end single room rates range from €55 to €157. The occupancy of 4-star and 5-star hotel in Skopje mostly depends on business, rather than leisure purposes. The tourists visiting Skopje for leisure purposes usually occupy lower rate hotels. The front-end single room rates range from €55 to €157. The average daily rate (ADR) per room calculated for high-end hotels in Skopje is €124. The calculated RevPAR for high-end hotels in Skopje is €62. European cities hospitality data for 2014, show the ADR and RevPAR figures for the hotels in major European cities are have reached €106 and € 73 respectively.

NAME	Grade	Location	Rooms	Price/room	Occupancy Weekdays	Occupancy Weekend	ADR	RevPAR
Aleksandar Palace	*****	West	135	157 €	40%	30%	195 €	72 €
Holiday In	*****	Centar	178	129 €	65%	40%	139 €	80 €
Stone Bridge	*****	Centar	30	138 €	50%	40%	177 €	83 €
TCC Plaza	*****	Centar	25	76 €	40%	30%	87 €	32 €
Arka	*****	North	28	88 €	30%	30%	94 €	28 €
TCC Grand Plaza	****	West	28	86 €	40%	30%	95 €	35 €
Best Western Tourist	****	Centar	74	126 €	75%	50%	140 €	95 €
Karpos	****	West	59	89 €	40%	30%	98 €	36 €
Glam	*****	West	28	88 €	60%	40%	85 €	46 €
Hunting House Kamnik	****	West	74	126 €	40%	30%	75 €	28 €
ibis Hotel	****	Centar	110	55 €	65%	40%	65 €	38 €
Best Western Bellevue	****	East	32	62 €	60%	45%	85 €	47 €
Opera House	****	Centar	16	76 €	65%	40%	90 €	52 €
Hotel Russia	****	East	61	85 €	65%	40%	100 €	58 €
Hotel Solun	****	Centar	57	117 €	65%	40%	125 €	72 €

Forecast

In March 2016 the market will see the opening of 5-star Merriott Hotel which will increase the hotel market supply with additional 143 rooms and 21 suits. In 2013, local investor announced new hotel development, a Double Tree by Hilton franchise. The hotel is planned to increase the market supply with 172 upscale rooms. Currently the project is on hold.

Investment Focus

The hotel market in the Skopje went through significant adjustments over the past 15 years, in line with the country's economic growth and transition. The hotel market is still was very immature, segmented and very different to other markets in Western Europe. This is mainly consequence of lack of competition and lack of new foreign direct investment in hotel developments.

Forton is an independently owned and operated member of the Cushman & Wakefield Alliance

ABOUT FORTON MACEDONIA

Forton Macedonia is an advisory company focused on commercial real estate. We are part of the Bulgaria's largest real estate holding company AG Capital and an Alliance Partner of Cushman & Wakefield, the world's largest privately owned real estate advisory.

Our company provides a full range of commercial property services to clients and partners. We are able to guide investors through every stage of the real estate process from research & strategic planning, to the purchase, financing, leasing, management, valuation and disposal of assets.

Our job involves scrutinizing individual real estate assets and portfolios in order to advise on the best alternative use and/or restructuring approach, with a view to maximize investment value in the long run.

Cushman & Wakefield is our gateway to investors in over 60 countries worldwide. We employ this strategic alliance, local knowledge and expertise to add value to our clients' real estate projects and developments.

MAIN SERVICE LINES

Capital Markets & Consultancy

- Market research and analysis / Feasibility studies;
 - Investment research: Customized studies on specific market segments (retail, office, industrial or residential) and location-specific studies.
 - Key indicators statistics: Full internal statistic database about the commercial regional markets directly from the state institutions, investors, building companies, retailers and tenants (Past trends and contemporary developments). International news, statistics and trends from CUSHMAN & WAKEFIELD.
 - Feasibility studies: Profound analysis of Retail, Office, Industrial, and Hotel & Mixed-use projects for all purposes (development; bank financing; acquisition or sale).
 - Property valuations: All types of commercial properties. Full compliance with RICS & International Valuation Standards

- Occupier strategy;
 - Organizational assessment; Rent and property management costs review; Strategic scenarios for expansion; Relocation or space optimization; Cost efficiency analysis.
- Property due diligence;
- Investment sale structuring and transaction integration;
- Project management;
- Development monitoring;
 - Ongoing analysis of the investment project execution (construction progress) including base, monthly, alarm and final report.

Retail / Office / Logistic space LEASING

- Landlord & Tenant representation
- Comments on the property concept:
 - Fine tuning of the concept design
 - Tenant mix
 - Units size
 - Price-asking business terms.
- Preparation of leasing documentation:
 - Estimated Rental Value file
 - Leasing strategy
 - Marketing communication strategy
 - Leasing agreement advisory service (LOI, HOTs, Final agreement)
- Leasing
 - Identification of prospective tenants
 - Target list
 - Presentation to prospective tenants
 - Negotiations with prospective tenants
 - Support in transaction execution

Property Management

- Pre-opening setup/management:
 - Design consultation and advice on building systems
 - Service charge budgeting and apportionment procedures
 - Recruitment and on-site training of management staff
 - Tender service contracts
 - Reporting procedures
 - Handover process and liaison with prospective tenants
- Post-opening management:
 - Integrated administrative and financial services

- Tenant relations
- Facility management
- Commercialization and marketing
- Property management due diligence services:
 - Review and analysis of operational expenditures
 - Inspection of subcontractors and suppliers
 - Optimization of management performance and procedures

Investment sales & Acquisitions

- Strategic transaction advisory:
 - Property valuation
 - Review legal risk and tax implications
 - Compare alternative options
 - Cost analysis of the transaction
 - Deal negotiations and executions
- Due diligence:
 - Ownership and all legal issues
 - Liabilities (government, partners and contractors)
 - Contract with tenants
 - Compare tenant commercial terms with current market prices
- Transaction integration:
 - Investment teaser and memorandum (for single assets or portfolio)
 - Sale & Leaseback transactions support
 - Global sale platform and online data room
 - Negotiations with investors, analysis of the offers and transaction execution



Makedonya-Türkiye Ticaret Odası

MATTO

Macedonian-Turkish Chamber of Commerce

MATTO

Macedonian-Turkish Chamber of Commerce

St. Lermontova br.16, 1000, Skopje

www.matto.com.mk | +389 2 310 12 20



**CUSHMAN &
WAKEFIELD®**



FORTON

Forton is an independently owned and operated member of the Cushman & Wakefield Alliance

FORTON Macedonia

Business Center "AURA"
Blvd. Partizanski Odredi br.14, 1000, Skopje

www.forton.mk | +389 2 310 10 00