

NEWSLETTER

Investment Promotion Agency of Kosovo (IPAK) – Office in Vienna
 Implemented by Economic Initiative for Kosova (ECIKS)
 No.1, April 2008

Kosovo is Independent

On 17 February Kosovo declared its independence, becoming the last state to emerge from disintegration of Yugoslavia. The declaration of independence established Kosovo as a democratic, secular and multi-ethnic republic promoting the rights of all communities in Kosovo. The newest European state has committed to fully implement the obligations contained in UN Special Envoy Ahtisaari's Proposal, including its extensive minority safeguards. In addition, the declaration invites and welcomes the international civilian presence to supervise the implementation of the UN Envoy's Proposal, an EU rule of law and police mission (EULEX) and a continuation of NATO's Kosovo Force (KFOR).

The Republic of Kosovo has been recognised by the majority of EU countries and other big countries such as the United States, Canada and Japan.

Kosovo's independence will stabilize the entire region and will offer a perspective of economic development and EU integration to Kosovo's young population; it will bring a long-awaited stability, marking an end to a long period of political and economic uncertainty.

Kosovo is ready to take on the challenges ahead in building a stable, sustainable, and democratic country.

TOP 10 REASONS TO INVEST IN KOSOVO

- 1) Central location in the region
- 2) Young, educated, multilingual, dynamic population with high entrepreneurial spirit
- 3) Cheap, flexible and well skilled labour force
- 4) Modern Telecommunications
- 5) Modern, EU-compatible legislation and IAS, including "National Treatment" for foreign Investors
- 6) Sound banking system
- 7) Currency: EURO
- 8) Free access to EU-market and CEFTA members market
- 9) Great investment opportunities
- 10) Low tax burden on enterprises and modern business support institutions



The resolution of the final status of Kosovo removes the last obstacle for foreign investors



KOSOVO IS READY AND OPEN FOR BUSINESS

Dear Investor,

Along with our electronic Newsletter this is the first printed Newsletter you are receiving from the Vienna Office of the Investment Promotion Agency of Kosovo. This office has been established in November 2006 with the financial support of the Austrian Government aiming at attracting and facilitating foreign direct investment in Kosovo from the German-speaking countries. We target these countries because they do not only represent a major potential for FDI to Kosovo, but at the same time they are home to 25% of Kosovo's population, making the ties of this region with Kosovo even more important.

This newsletter represents another source of information for you, not only about the comparative advantages and investment opportunities in Kosovo, but also about the general business and investment environment there.

In the previous years remarkable progress has been achieved in establishing the foundations of a modern market-led economy. The real economic growth in 2007 is estimated by the IMF to be over 5%, outperforming this way the 3.1% growth of the previous year. The main engine behind this growth is the SME sector, which is gradually becoming the backbone of the Kosovar economy. The macroeconomic stability is maintained continuously with the inflation rate below 2% and the exports continuing to increase.

The inflow of FDI is also rising. Estimations indicate that only during 2007 some 300 million Euros were invested in Kosovo. Among foreign investors profitably operating in Kosovo are also Raiffeisen, Uniqa, Vienna Insurance Group, Xella, BNP Paribas, Telekom Slovenija, Holcim, Nova Ljubljanska Banka, Strabag, Mittal Steel etc.

Great investment opportunities are also available in 2008. The Government is planning to proceed further with the project for the construction of the new power plant Kosova C, an investment amounting at 3.5bn Euros. In addition, the privatisation process will continue, offering great opportunities in sectors of agriculture, tourism, energy, mining, and metal processing. Kosovo is planning to invest 1.3bn Euros in the construction of new highways to Albania, Serbia, and Macedonia and has announced the privatisation of the mobile network operator Vala.

With the independence declaration of Kosovo and the following international recognition, the last obstacle for the economic development and the continuous inflow of foreign investments has been removed. Now, in Kosovo, it is all about economy. And we are ready to tackle all challenges Kosovo is facing in this area.

Agriculture sector in Kosovo



Kosovo is well endowed with agricultural land. More than half of Kosovo's surface (588,000 ha) is used for growing agricultural cultures. With some 60 percent of the population living in rural areas and mostly working in agriculture, Kosovo has a long agricultural tradition. Currently agricultural sector contributes with 19 percent to the GDP and is the main source of income for the majority of population. Additionally it is one of the most important employment providers in Kosovo and it accounts for 16 percent of the value of exports.

The arable land in Kosovo is considered to be of good quality. Combined with the temperate climate that prevails throughout the country very good conditions for the agricultural production are given. This factor constellation, together with sufficient natural irrigation possibilities, enables Kosovar farmers to achieve high yields per ha in every sub-sector of agriculture. In comparison to other countries, Kosovo additionally offers a very flexible and cost effective labour force and, due to trade liberalization within CEFTA region,

a free access to the market consisting of 30 million consumers.

Based on the area and average yield per ha, certainly the most important fields of agriculture in Kosovo are the vegetable and grain sectors, but Kosovo is also well known as a ground for different types of fruits as well as grapes. Due to its geographical composition, Kosovo additionally offers very good condition for livestock farming.

In order to improve the competitiveness of the sector and consequently stimulate the local production, the Government of Kosovo has recently introduced different incentives for farmers and processors. The 0 % tariff rate for most agricultural inputs and capital goods, together with VAT exemption for a wide range of agricultural inputs have been designed to strengthen local production and enable it to further compete with foreign products.

The promotion of the product processing businesses, support for exports and simple access to the favourable financial means are some further steps that together with sufficient investor interest will turn around this segment of Kosovo's economy and lead to the creation of a large export business.

Wood industry

Forests and related surfaces make up around 40% of territory of Kosovo and represent a resource of special importance for Kosovo's economy. With annual value of wooden products and other benefits arising from forests reaching EUR 50 – 75 million, this sector even assures a livelihood for 10% of the Kosovo population.

Due to the sufficient availability of inputs Kosovo offers great investment possibilities in every single wood processing cycle. An annual allowable cut is currently slightly below 1 million m³ with Beech and Oak being the main species. Potentials for foreign investors range from door and window to different furniture production. There is currently a large pool of companies in Kosovo that could be your cooperation or outsourcing partners.

Large stock of traditionally gained experience, high knowledge in wood processing and cost effective labour force make Kosovar wooden industry in particularly well suited for manufacturing of hand made luxury products. In addition, most sawmills in Kosovo only saw logs into rough, mixed grade lumber, and do not ap-

pear to recognize, or have not yet explored, the potential value of waste products from lumber production, i.e. sawdust and wood chips.

Taking in consideration all benefits Kosovo offers, its wood processing industry has experienced significant changes during the past 8 years. Due to better organisation and sufficient service providing clusters, Kosovar producers were able to increase the quality and product range, thus expanding into foreign markets. Currently, Kosovar wood processors are supplying home and hotel furniture to companies in Germany, Netherlands, Switzerland and neighbouring markets.

Through efforts and engagement of members of the rich institutional environment of wood Industry, Kosovo is offering different incentives that aim to further promote and facilitate the wood primary and secondary production. Kosovar Government has recently approved a zero tariff rate for imports of machinery and capital goods related to this sector, while further negotiations for exception of wood raw material from VAT and Customs policy are currently taking place.



IT and Telecommunications

The IT sector in Kosovo, including Internet Service Providers, has seen a remarkable development since the end of the war in 1999. From being inexistent 10 years ago, Kosovar companies in the IT sector offer today high quality services and the latest technologies to their customers in Kosovo and to foreign companies who want to outsource their software development or support centers.

Kosovo has the youngest population in Europe. It is both skilled and multilingual, with English being short of an official language in Kosovo due to international administration in the last 9 years. In addition, many Kosovars who have studied abroad are now returning to Kosovo, bringing with them skills and know-how. Public and private education institutions in the IT field, supported by companies such as CISCO or Microsoft, provide today education to thousands of young Kosovars while the demand for such education is still rising.

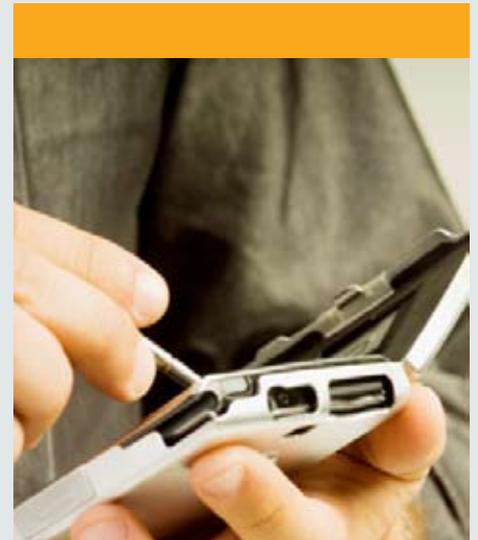
Be it outsourcing of software development, data management, establishment of call and support centers or other consulting services, Kosovar companies can offer you high quality services at low costs. For examples of outsourcing in Kosovo see the section "success stories" of this newsletter.

Telecommunications

Even though Kosovo has one of the highest Internet use rates in the region, the demand is still much higher than the offer, providing great opportunities for foreign investors.

Kosovo has 2 mobile telephony operators, with over 200 million Euros investment by the Slovenian Telecom in the second one. The state-owned mobile telephony operator VALA with over 850.000 users is expected to be available for privatization in 2008.

In addition, great opportunities for foreign investors are also available in fixed telephony, VoIP, cable TV, etc.



Tourism sector in Kosovo

The natural values of Kosovo represent high quality tourism resources. The description of Kosovo's potential in tourism is closely related to the geographic position of Kosovo. Its position in south-eastern Europe, with a central position in the Balkan Peninsula, represents a crossroad which historically dates back to Illyrian and Roman times.

The mountainous south of Kosovo has great potential for winter tourism. One of the most interesting opportunities for foreign investors in this region is the skiing resort Brezovica in the Sharr Mountains (photo). The resort, situated between 1700 and 2500 meters above the sea level, has been offered for privatization by the Kosovo Trust Agency. It offers excellent weather and snow conditions as well as long ski seasons from November to May.

Assets of Brezovica also include 3 hotels with 680 rooms, 2 Restaurants and 9 ski lifts with transport capacity of 10.000 skiers per hour. Through its proximity to Prishtina Airport (60 km) and Skopje Airport (70 km), the resort is a possible destination for international tourists and has potential to become the most favourable winter tourism destination in the Balkans.

Also in the Sharr Mountains in the very south of the country, bordering Macedonia and Albania, Kosovo is offering for privatization about 22.000 hectares of largely untouched land in the mountainous area, belonging to the socially owned enterprise "Sharrprodhimi". The region



offers excellent tourism opportunities, such as skiing, echo-tourism, paragliding, mountain biking, rock climbing, trekking, kayaking, horse riding, etc. Sharrprodhimi land in the municipality of Dragash is stunningly beautiful. It is clearly a remarkable property for echo-tourism, and will only be sold to a proven investor who is committed to a sustainable and rational development program which will have strong local support.

The wellness-tourism in Kosovo also offers great potential for development. The numerous

thermal springs of Kosovo are well known in the region for their healing effects. Foreign investors in this field will find high demand in the regional market.

The widespread production of rare artisan crafts in Kosovo, such as the Filigree represents an attraction for foreign tourists. In addition, Kosovo has potential to develop cultural tourism with numerous religious and other sites with extraordinary cultural-historical value.

Success stories: Construction Xella International

Xella International Group, part of Haniel Corporation is the market leader in construction materials with production facilities in all six continents.

Xella Group has opened a silicate product factory in Lipjan, near the Kosovar capital Prishtina in 2007. The value of this Greenfield investment reaches 12 million Euros and represents the most important project of Xella Group in the Balkan region. Xella Kosovo supplies the entire region with silicate products under the brand name "Silka".

With the final resolution of the Kosovo status, the construction industry in general is expected to attract a large amount of foreign investments. Some Austrian companies, such as Strabag, have already invested in Kosovo.

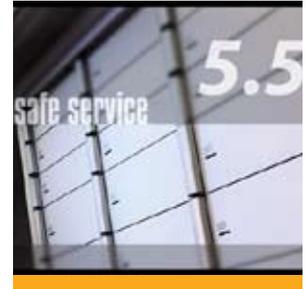


Success stories: IT Wertheim / Rrota

The Austrian company Wertheim has outsourced the development of a new software package in Kosovo. The 300.000 EUR worth investment foresees the development of a sophisticated software package for managing safe deposit boxes produced by Wertheim. The project is also supported by the Austrian Development Agency (ADA), who will take over a part of the investment.

The Kosovar company Rrota, who will develop the software for Wertheim in the next 2 years, says that the software will also enable customers to access their safe deposit boxes through biometrical data.

Over 400 branches of banks in Austria, Switzerland, Croatia and Slovakia use Wertheim safe deposit boxes, while the software will from now on be developed by Rrota in Kosovo. The project creates 6 new jobs in Kosovo.



Success stories: Agriculture Kolm Pfluger / Etlinger

Kolm Pfluger, an Austrian company producing various sorts of salads and tined vegetables and supplying trade chains in Austria has outsourced the production and packing of chilli (Pfefferoni) and other vegetables in Kosovo. In the initial phase of the project, the vegetables, other ingredients and glasses were delivered from Austria while the Kosovar company Etlinger has taken over the processing and packing. Over 25.000 glasses of vegetables were produced in 2007.

Starting from this year, the Kosovar partner has also taken over the cultivation of vegetables while the production will substantially increase. This investment worth half a million euros and supported by Austrian Development Agency (ADA) creates more than 100 new jobs in Kosovo.

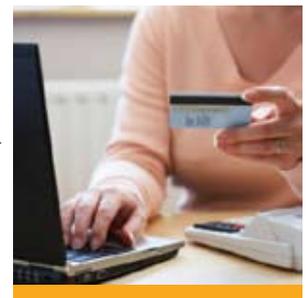
Agriculture has a long tradition in Kosovo. With most of Kosovos population living in rural areas, this sector offers great opportunities for potential investors.



Success stories: Banking sector

The development of the banking system represents one the most important success stories in Kosovo in recent years. Built from scratch, the banking system was developed based on prudential regulations and sufficient institutional pool guarantying continuously stable and stimulating operational environment.

Due to the high return on equity and low amount of non performing loans this field was from the begging very attractive for foreign investments. The first foreign bank to enter the financial market in Kosovo was the Procredit Bank in 2000. It was followed by Raiffeisen Bank in 2002. Late entries include also Nova Ljubljanska Banka that has acquired two local Banks in 2007 as well as BNP-Paribas and Albanian Trade Bank, both establishing their presence in form of green field investments in second half of 2007. Currently, 95% of total assets of banking system are in foreign ownership.



Our free-of-charge services

- Information on investment opportunities
- Market information and analysis
- Assistance with local institutions
- Information on business environment
- Information on legal environment
- Identification of local partners
- Exploring new markets
- After-care services

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