



One Company's Perspective of Self-destructive Government Practices and the Impact on Economic Growth in Kosovo

Over the past five years since opening our office in Pristina, Kosovo, we as a company have witnessed significant improvement in the laws and governing bodies that enable businesses like ours to operate. Likewise, we have felt and continue to feel the impact of operating a company within a developing nation. For those who are interested, we would like to share our story, our challenges and our perspective on operating within Kosovo and hope that our case can be used in a positive way to further improve the business environment and general health of the country.

3CIS was founded in November 2008 with majority of ownership being based on US capital. Our initial specialization was mobility solutions and specifically professional services targeted at the world's mobile network operators. We decided Kosovo would suit our needs even though expertise of this sort was not abundantly found within Kosovo at the time. We recognized the potential of the people and were inspired by the desire of those we interviewed to learn and expand their knowledge. Our path forward would be one where we invest in the development of the people and build what we need in a team rather than solely hire people with all of the necessary experience. Fundamentally, we hired based on character of the people and relied on their desire to advance their careers and lifestyle to overcome any training gaps. We are proud to say that this was the right decision.

Today, our engineers and project managers demonstrate extensive experience and advanced skills as they engage in global projects. Many now hold numerous industry recognized technical and professional certifications. Our practice areas have expanded to include enterprise networks, mobile network security, software development and large private and public wi-fi solutions and video and web optimization for 3G and 4G operators. Our people have often been awarded recognition from Customers and Services Partners for successfully deploying and operating carrier class networks. We couldn't be happier with the quality of our staff and the depth of resources that Kosovo has to offer.

To date, we have employed 150 people. Considering the unemployment rate in Kosovo, this may not be enough to dramatically improve the rate, but it is still another 150 families with much needed income who spend locally and help others in the community. This is

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fundamentally what Kosovo needs to thrive. More employment results in more money in the economy and more money results in a healthier economy. The government should likewise be happy as every employed person produces income from payroll taxes as well as taxes incurred when paychecks are spent. This is obviously a good thing for everyone but recent events have shown a fundamental lack of understanding of this simple economic principle.

This brings us to our most significant challenge encountered to date while operating a company in Kosovo. Although all may not share our perspective, we again hope that we can bring light to a major issue that will discourage further investment in a country that badly needs it. This challenge has impacted our company badly. We have had our darkest days this week as we sadly released 20% of our workforce. Nearly 30 people, who will no longer receive paychecks, will no longer spend locally and who will no longer contribute via taxes.

As a company, turnover of staff is the most expensive item to impact financials. Salary, although the average paid to our employees is well above standard for Kosovo, it is only a fraction of the costs associated with our employees. We also fund a comprehensive benefits package including health care, life insurance, sick-leave and as mentioned earlier, spend significantly on employee development. So, losing staff, especially when it could have and should have been avoided is an absolute travesty for the employee, for our company and for Kosovo as a whole.

3CIS was put through an exhaustive financial audit of all years of operation. We welcomed this as a means to ensure we are, as we believed to be, operating fully within the tax law. All documents, records, receipts, etc. were shared openly and willingly knowing we should earn a reputation of being a well run and honest company with a high degree of integrity once the audit was completed.

Within this audit, a total turnover of \$20M was reviewed over a period of five years . In total, the Tax Administration of Kosovo (TAK) was only able to find a €700 discrepancy, or the equivalent of €70 owed by our company (meaning our book accuracy rate is about 99.999954%). TAK acknowledged that they have never encountered a company with such well-kept and accurate financial records. As a point of reference, we had previously been declared as the "Best Exporter" in 2011 by the Association of Exporters of Kosovo and also received an award as the #1 company among small businesses in Kosovo as determined by the Ministry of Commerce and Industry. All of which we are very proud to have earned by consistently operating with integrity and high moral value.

In the absence of any discrepancy or obligation being found during the audit, 3CIS was illegitimately served with penalties for non-payment of VAT. When one takes into account that the activities we support are considered to be 100% exports, there are simply no grounds to charge VAT. None of 3CIS Customers are in Kosovo. Their reasoning is based on a clear misinterpretation of law. "Place of Supply" is what is used to determine whether VAT is applicable or not. "Place of Supply" is, as commonly understood globally, the place where goods are consumed or in 3CIS case, where our Customers are (on five different continents including

USA, UK, Canada, Germany, S. Africa, India, Australia, Russia, etc. – all out of Country). Regardless of the fact that 3CIS has documentation from TAK that clarifies VAT is not chargeable for the services we provide, they proceeded to force us to pay VAT plus interest and threatened additional significant penalties if we do not pay in full immediately. The net effect is that our company has been impacted by an unplanned and unaffordable bill of €530,000.

After appealing multiple times to TAK and incurring significant legal and financial consulting fees, we were simply rejected and forced to pay. One part of the appeal process was supposed to be based on an “independent panel” reviewing the case but the panel was simply constructed with TAK employees and the decision remained the same. Despite the arguments and explanations by many professionals and institutions that stated that we were right and should not be charged, an official report issued by the tax administration stated otherwise and we reluctantly paid. Adding to the frustration, Multiple TAK representatives have told us we were right, but refused to stand up for us officially. We were told on one occasion to pay and then take them to court and we would win. This was shocking and showed clear ignorance for the real impact of allowing an unjust decision to be made.

This situation has come to be understood by our company as a reality of operating in Kosovo. We are discouraged by the potential for unwarranted fines, penalties, taxes or whatever else may surface unexpectedly in the future. This does not encourage our continued investment nor will it encourage other businesses to invest in Kosovo.

In our efforts to pursue justice and ensure fair treatment, we appealed to the Tax Administration of Kosovo, the Ministry of Finance and the American Chamber of Commerce in Kosovo, to which we have been a regular member and contributor since 2009. Unfortunately we did not gain much support from anyone and encountered a general feeling of indifference and lack of initiative to solve a problem that is much bigger than our company paying a fine. This is an issue that affects the people of Kosovo, the government and the growth the country. It must not continue to be a challenge for companies who chose to establish a presence in Kosovo.

We have been left with the impression that many institutions have become too close to the government entities they should be working to drive change within and their actions reflect bias. This realization has forced us to sever any associations with organizations that do not appear to operate with integrity.

We have been attempting to engage with fundamental court proceedings for six months now. We filed with the courts in October 2013. The division that handles fiscal matters has not yet begun to treat any issues of this nature. As we wait, the effect of paying penalties to TAK has impacted the stability of our company. It prevents the normal functioning of the company and impaired our ability to retain staff. Therefore, to protect the well-being and future of the business, we reluctantly reduced staff this week.

Words alone cannot express our disappointment in having to take this step. We are left looking for other options and are strongly considering moving our operation outside the territory of

Kosovo. Our hope in sharing our story and perspective on challenges, in addition to appealing to those in charge for action, is that improvements are made to ensure the fair treatment of all legally operating companies in Kosovo. We cannot envision a bright future for 3CIS nor any other company unless this situation is improved and those operating without integrity are held accountable. Without a favorable and fair business environment, the impact to the developing nation of Kosovo is dire.

3CIS Board of Directors

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