

WHY INVEST IN SLOVAKIA



EXPLORE THE EXCITING OPPORTUNITIES

S A R I O

Slovak Investment
and Trade Development Agency

1 Introduction

“Why Invest in Slovakia” acquaints the reader with the economic facts and figures of Slovakia, information on the business environment, sector strengths, vision, and strategy for economic development and other useful information in order to illustrate why Slovakia is an ideal location for business. We hope that this publication will encourage you to consider investing in Slovakia.

Slovakia, the country in the heart of Europe, offers great advantages to foreign investors: strategic location between East and West with great export potential, the common European currency Euro, flat tax rate of 19% and flexible Labour Code. Until the global economic crisis, Slovakia was enjoying sustained high economic growth. In 2008 Slovakia had a GDP growth of 6,4%, which was the second highest in the European Union. Due to global economic crises Slovakia’s GDP growth in 2009 was -4,7%. In 2010, the Slovak economy is expected to grow again and its GDP growth should be one of the highest in the European Union. IMF predicts Slovakia’s GDP growth in 2010 to be 3.7%. The inflation in Slovakia was kept at the low level of 1.6% in 2009.

EU membership provides Slovakia multiple benefits from a business point of view, of which the most important are:

- Stable legal environment
- Nearly unlimited access to other markets within the EU 27
- Lower costs of operations due to the liberalisation effort of the various markets and increases in competition (telecommunication, financial services, etc.)
- Less regulated migration of the work force
- Improvement of transport corridors – lower lead times and logistic costs
- Access to EU funds
- Intra-EU non-VAT trading
- Common currency – the euro.

10 Reasons for Investing in Slovakia

- Central European hub and favourable geographic location
- Political & economic stability, forecasted one of the highest economic growth in the EU in 2010
- 19% flat tax rate and 0% dividend tax
- Availability of highly skilled workforce
- Low labour costs vs. high labour productivity
- Euro as the official currency
- Large selection of industrial land and offices available for purchase/lease
- Harmonised investment incentives
- Infrastructure that is growing steadily
- High innovation potential for R&D projects



General information on the Slovak Republic

Official name:	Slovak Republic
Area (km²):	49,035
Population:	5.4 mil.
Capital:	Bratislava
Regions:	Bratislava, Trnava, Trenčín, Nitra, Žilina, Banská Bystrica, Prešov, Košice
Member of	EU, Euro Area, Schengen Area, OECD, WTO, NATO, etc.
Currency:	EUR (since 1 January 2009)
Time zone:	GMT + 1 hour
Type of government:	Parliamentary system
Official language:	Slovak
Electoral system:	Proportional representation
Election term:	4 years (Parliament), 5 years (President)

The largest cities and towns

City/Town	Population	City/Town	Population
Bratislava Area	601,132	Žilina	85,268
Košice	235,006	Banská Bystrica	81,704
Prešov	91,767	Trnava	69,140
Nitra	85,742	Trenčín	56,850

Source: Statistical Office of the Slovak Republic, www.statistics.sk, 2010



2 Economy

Ten years ago, Slovakia embarked on an ambitious plan of deep structural reforms with a vision to become one of the best business locations within the European Union (EU). Today, Slovakia is widely seen as a success model for other EU countries for creating an investment and business-friendly environment. Slovakia is a full member of the EU, NATO, OECD, Euro and Schengen Area.

Slovakia adopted the euro on 1 January 2009 and thus became the 16th member state of the Euro Area. It was thanks to the sustainable development and good inflation forecasts. The official exchange rate was 30.1260 SKK/EUR. Membership in the euro zone reduces the currency exchange risks and tightens the fiscal discipline of the adopting countries, which results in more opportunity for a stable economy. In the long run, this will be beneficial for the businesses active in Slovakia.

Macroeconomic figures

	2002	2003	2004	2005	2006	2007	2008	2009
Real GDP Growth	4.8%	4.7%	5.2%	6.5%	8.5%	10.4%	6.4%	-4.7%
Inflation (HICP)	3.5%	8.4%	7.5%	2.8%	4.3%	1.9%	3.9%	0.9%
Registered level of unemployment	17.8%	15.2%	14.3%	11.6%	10.4%	8.4%	7.7%	11.4%
SKK/EUR**	42.70	41.49	40.05	38.59	37.25	33.78	31.29	30.1260 (official since 1. 1. 2009)
Export in EUR billion	15.4	19.4	22.4	25.7	31.0	42.6	47.7	39.7
Nominal wage inflation (conversion rate)	9.2%	6.3%	10.1%	9.2%	8.6%	7.4%	8.1%	3.0%

*From 2003 the NBS has been using a different methodology than in the previous years – it started including reinvested profit in the FDI inflow. Thus, data from 2002 contain only equity capital; data from the period 2003 – 2006 contain equity capital + reinvested profit. The data from 2007 and 2008 include again only equity capital. FDI inflow per year incl. reinvested profit is at the moment not available for 2007 and 2008.

** Average yearly exchange rate

Note: Amount in EUR was calculated with the average exchange rate in the respective year.

Source: The Statistical Office of the Slovak Republic www.statistics.sk, 2010, National Bank of Slovakia, www.nbs.sk, 2010,

ING Bank, www.ing.sk, 2010

Country credit rankings

Slovakia is generally recognised as an open market economy, which is able and willing to pay its liabilities. Based on Standard and Poor's ratings, Slovakia has become the leader of the Central European region.

The following table shows the various credit ratings for the countries of the V4. Slovakia has maintained its positive momentum and has the best ratings in the V4. This is a great advantage for foreign investors, as it means that Slovakia, Slovak banks and companies are in a strong financial position and are able, and willing, to repay their debts. In spite of the current situation, Slovakia is one of the few countries to maintain a stable/positive outlook, in which our ratings are not expected to change in the near future.

Country	Standard and Poor's	Moody's	Fitch	OECD Country Risk (the lower the better)
Slovakia	A+ stable outlook	A1 stable outlook	A+ stable outlook	0
Czech Republic	A stable outlook	A1 stable outlook	A+ stable outlook	0
Poland	A- stable outlook	A2 stable outlook	A- stable outlook	2
Hungary	BBB- stable outlook	Baa1 negative outlook	BBB negative outlook	0

Source: Standard & Poor's, www.standardandpoors.com, April 2010; Moody's, www.moody's.com, April 2010; Fitch, www.fitchratings.com, April 2010; OECD Country Risk Report as of 29 January, 2010, www.oecd.org, 2010

2 Business Environment

Comprehensive and deep structural reforms of the Slovak Government in recent years have focused on creating a business friendly environment for investors. The following is an overview of the main reforms, directly or indirectly, influencing economic stability.

19 %

Flat tax rate of 19% - Simple, Fair, Neutral and Effective – All the types and amounts of income are taxed at a flat rate of 19%; there is no double taxation and no dividend tax. A reduced 10% VAT was introduced for medicaments and for books. Repatriation of profits is 100%.

Flexible Labour Code – This was recognised by the World Bank as one of the most flexible in the EU.

Reformed social system – Among other things, new measures to avoid the abuse of the social system and better aimed targeting of social allowances were introduced. The introduction of employers' obligation to pay sickness insurance benefits for the first 10 days of an employee's illness leave resulted in a decrease of sickness rate from 9% to 3%.

Second pension pillar – Individual pension saving accounts in the pension administration companies were introduced.

Health care system reform – Market principles were introduced into the health care system.

Reformed Act on Commercial Registry – The amount of the time required to register a new company has been cut to a maximum of 5 days; the same applies to the issuance of a trade licence with a maximum allotted time of 7 days. As of 1 October 2007, one-stop shop centres were introduced at the Trade Licensing Offices. The one application form contains an application for trade licences, tax registration and registration with a health insurance company.

Banking & Finance – The banking sector was privatised with 97% foreign ownership. This sector underwent a dramatic recovery.

Investment incentives programme – Act on Investment Aid enables a fast and transparent negotiation and describes the requirements that should be met in a more detailed way.

Ease of doing business ranking

This ranking of the World Bank considers the quality and attractiveness of the business environment. Economies are ranked on their ease of doing business, from 1–183, with first place being the best. A high ranking on the ease of doing business index means that the regulatory environment is conducive to the operation of business. The rating factors are: political and institutional environment, macroeconomic stability, market potential, private entrepreneurship support, taxation system, finance, enforcing contracts, the starting and closing of a business, labour market and infrastructure.

Rank	Country
42	Slovakia
44	Bulgaria
47	Hungary
53	Slovenia
55	Romania
72	Poland
74	Czech Republic

Source: Doing Business Report 2010, World Bank, www.doingbusiness.org, 2010

Strategy for economic development

Slovakia has successfully implemented most of the planned structural reforms. The task today is to maintain and utilise their positive results and to watch for any possible future improvements. The Slovak Government has approved the Competitiveness Strategy of Slovakia. This strategy includes the governmental programme for a knowledge economy.

The government's vision is for Slovakia to rapidly achieve the living standard of most advanced Western European countries. Slovakia shall be synonymous at home and abroad for a country having exceptionally educated and creative people, a blossoming science and technology sector and producing innovative products and services of the highest quality. Slovakia shall be home to people who are capable of creating incredible and technologically superior products, which can compete with the products from the most advanced countries in the world, such as Japan, Germany and the USA.

The governmental programme focuses on four areas that are the most important for realising this vision:

<ul style="list-style-type: none"> ▪ Education and employment ▪ Modern educational policy ▪ Higher flexibility of educational programmes ▪ Achieving a high employment rate ▪ Coping with demographic changes 	<ul style="list-style-type: none"> ▪ Information Society ▪ Information literacy ▪ Effective e-government and modern online public services ▪ Extensive Internet accessibility
<ul style="list-style-type: none"> ▪ Science, R&D and innovation ▪ Training and support of outstanding scientists ▪ Research comparable with international standards and appropriately interconnected with the business sector ▪ Effective public support of those business activities that are aimed at research and innovation 	<ul style="list-style-type: none"> ▪ Business Environment ▪ High-quality law enforcement ▪ A high-quality physical infrastructure and services in the network industries ▪ Public institutions as a partner rather than a burden ▪ Effective access to the capital market for all enterprises

The best investment opportunities

Contemporary best business opportunities can be found in these areas:

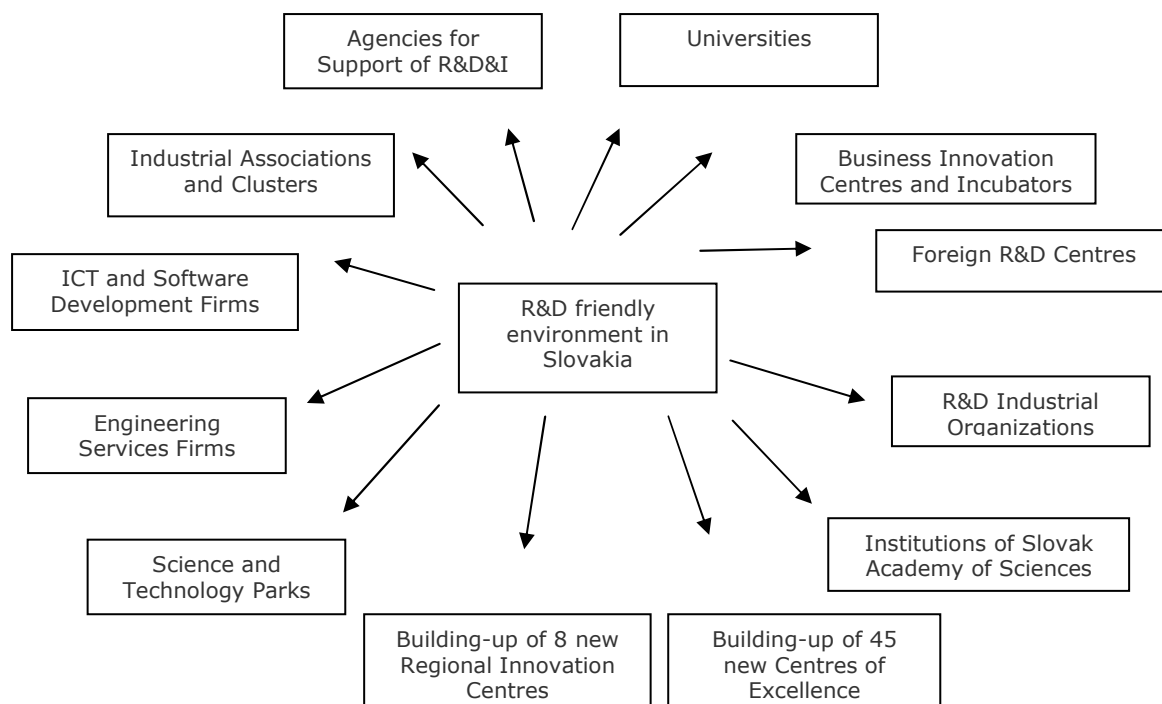
- R&D, Design & Innovation
- Technology centres
- ICT & SW development
- BPO
- Regional headquarters
- High-tech sectors
- Tourism

Additional opportunities can be found in the traditionally strong sectors with the growth potential found in Slovakia:

- Machinery & Precision engineering
- Automotive
- Metallurgy & Metal processing
- Electronics
- Chemistry & Pharmacy

The most important **reasons** for doing **R&D in Slovakia**:

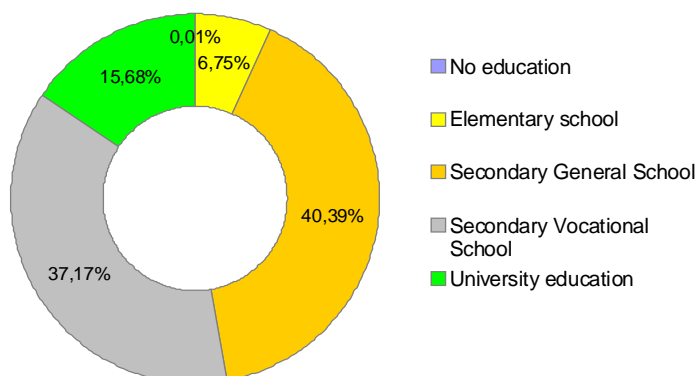
- Fast and sustainable growth of productivity and innovation capacities
- Highly accessible and qualified R&D workforce with low labour costs
- European Union intellectual property protection framework
- Excellent geographical location
- Low-cost research, innovation and lower risks in business
- Opportunities to stop brain drain and bring talent back from abroad (at the present time, Slovakia has many scientists and researchers working at foreign universities and R&D centres who create a good name for the Slovak science and research area.)
- Competitive universities clustered in three Central European university rings
- Good quality of maths and science education
- Long-term political and economic stability - the highest in the region
- Ease of starting a business
- State-of-the-art optical and wireless data infrastructure
- Presence of High-Tech and Middle High-tech industry
- R&D incentives
- Growing interest of foreign investors in R&D investment and presence of new foreign R&D centres
- Opportunities for building local and regional R&D centres and Design Centres for process improvement (optimizing existing production facilities in term of processes innovation)
- Competitive R&D environment (good combination of domestic and foreign R&D institutions and centres, continual building of R&D networks), constantly developing R&D network, which includes:



3 Labour market

Education

Slovakia reaches one of the highest shares of workforce with the secondary, higher education and the university educated workforce among all the European countries. Furthermore, the share of people with a university education is on the rise.



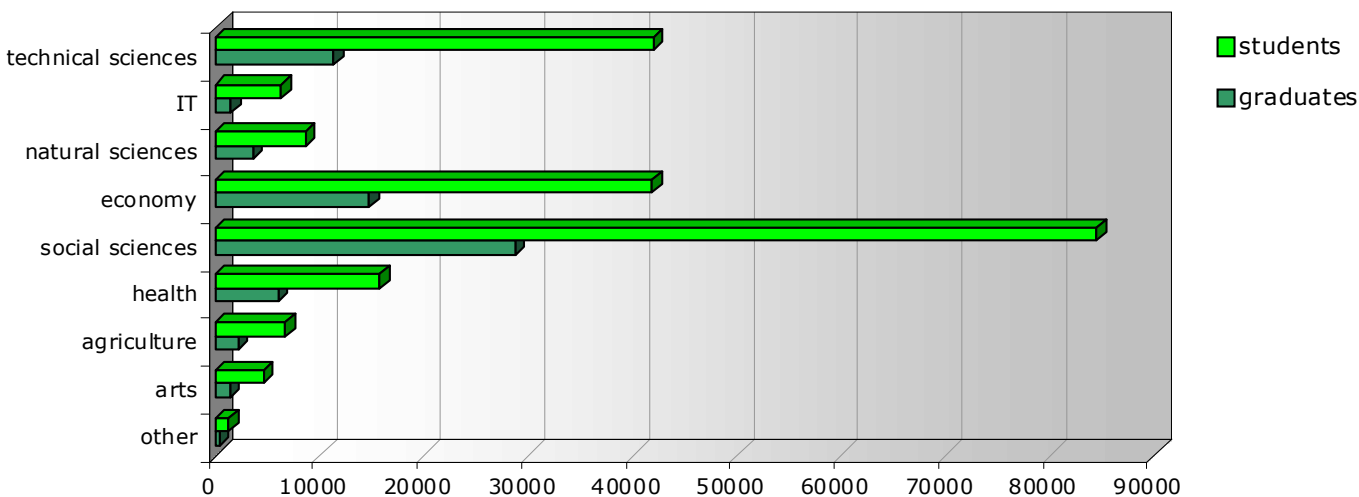
Source: Statistical Office of the Slovak Republic, www.statistics.sk, 2010

The workforce of more than 2.1 million has a strong tradition in engineering and mechanical production. Foreign companies frequently praise the motivation and abilities of Slovakia’s workers who also possess good language and computer skills.

University education in numbers

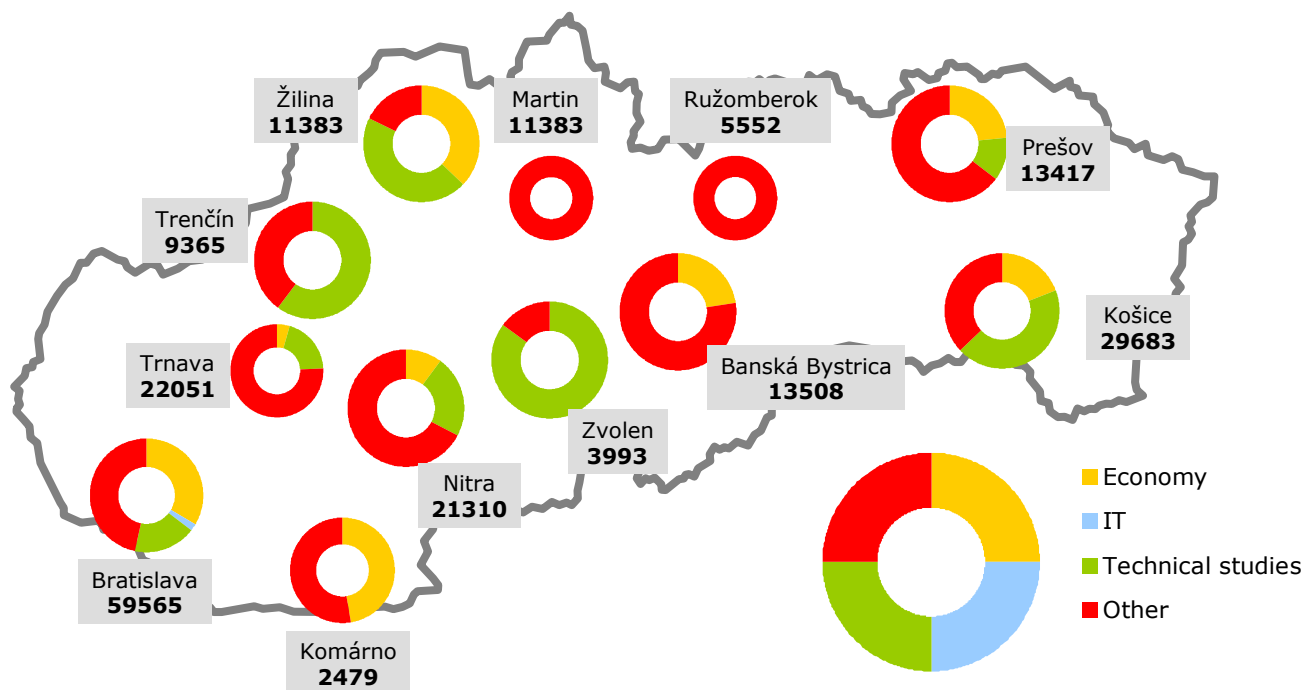
There are 33 universities in Slovakia spread all over the country. In the academic year 2009/2010, there were 211,553 students enrolled at Slovak universities and 69,809 graduated (both data include Bachelor and Master studies). There are two reasons behind these large numbers: the baby boom in the 1980s and a high percentage of secondary school graduates that enrol in universities. Slovakia is among the top countries in the world of secondary school graduates attending university.

The subject of studies is following:



Source: The Institute for Information and Prognosis in Education, www.uips.sk, 2010, SARIO calculations, 2010

Study of technical subjects is concentrated mainly in Trenčín, Žilina, Zvolen, Košice and Bratislava. Economy is studied mainly in Bratislava, Komárno and Žilina. Following is the distribution of study subjects in Slovakia.



Note: IT is involved also in technical studies. Due to the methodology of statistics result of the Institute for Information and Prognosis in Education, it was not possible to put it as separate category.

Source: The Institute for Information and Prognosis in Education, www.uips.sk, 2010, SARIO calculations, 2010

Secondary schools

Slovakia has a well established system of specialised training and vocational schools. To accommodate the changing requirements on the labour market, secondary schools are being given a higher degree of control in creating their own educational programmes to meet the current needs of the local industry.

Language skills

Slovakia is an export-oriented economy that can offer a workforce with a high degree of language skills. The foreign language most often spoken is English. The proximity to Austria and Germany has resulted in German being the second most-spoken foreign language. The result has been the inflow of multilingual contact centres and shared services centres.

Slovaks are taught a foreign language mostly already at primary schools and later on deepen their language knowledge (or start learning a language) at secondary schools.

The most common foreign languages taught at Slovak secondary schools in 2009/2010 were:



English
85.76%



German
60.84%



French
7.93%



Russian
7.56%



Spanish
2.99%



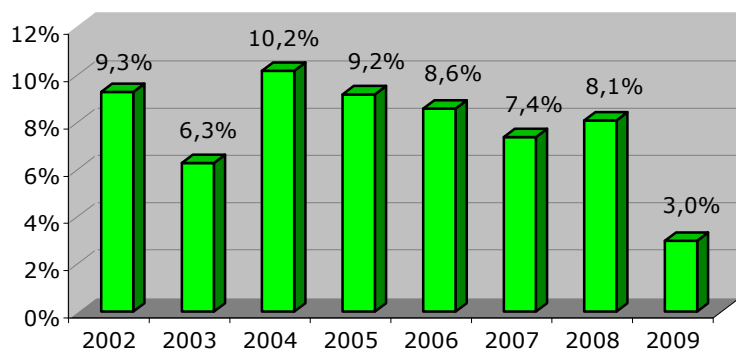
Italian
0.72%

Source: The Institute for Information and Prognosis in Education, www.uips.sk, 2010, SARIO calculations, 2010

Wages

The average monthly salary is still low compared to those paid in Western Europe and slightly lower than in Poland, Hungary and Czech Republic. In 2009, the average gross wage was € 744.50 per month, excl. obligatory social security contributions. The minimum monthly wage in 2010 is € 307.70.

The wage growth since 2002 has been following:



Source: The Statistical Office of the Slovak Republic, www.statistics.sk, 2010, Sario calculations, www.sario.sk, 2010

Social security contributions in Slovakia cover all the contributions in which there are no extra or hidden costs for the employer. The employer has to pay the social security costs for his employee of 35.2% on top of his salary. The employee pays for himself the social security costs of 13.4%. The contributions in Slovakia are upwardly limited. Everything earned above this figure is not subject to social security payments.

Average monthly wage and labour costs in EUR in 2009

	Slovakia	Czech Republic	Poland	Hungary
Average monthly wage	744.50	900	856	782
Social Security paid by employer	35.2%	26%	14.93%–18.16%	29%
Monthly total labour costs	1,007	1,134	983 – 1,011	1,009

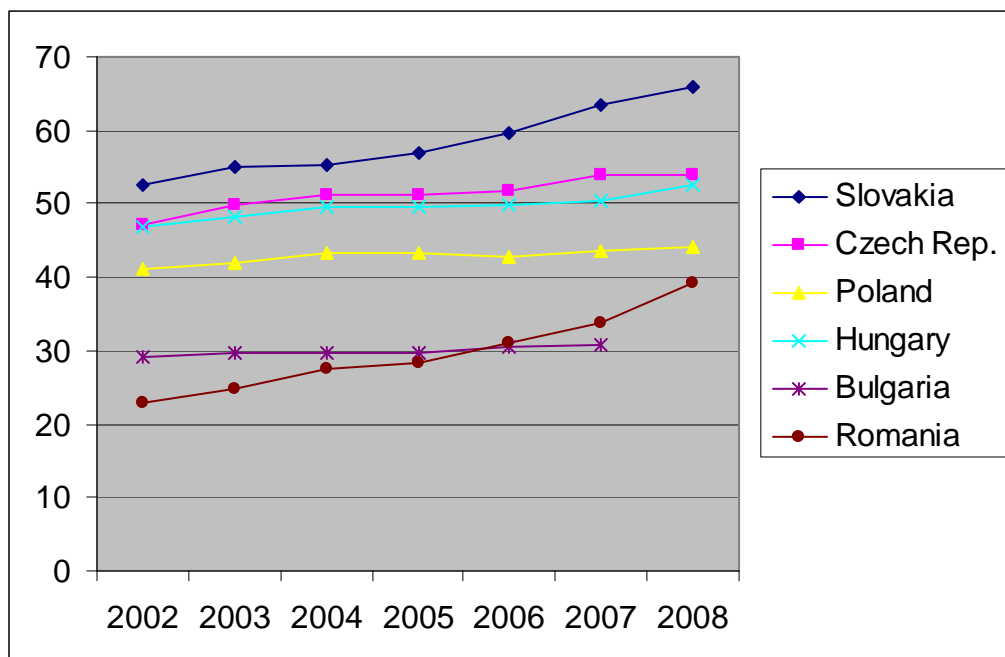
Source: National Statistical offices of Czech Republic, Hungary, Poland, Slovakia, 2010

Please note that there are significant regional and sector differences in the level of wages within Slovakia.

Labour productivity

Labour productivity is presented per hour worked. It is expressed as GDP per hour worked. It is intended to give a picture of the productivity of national economies expressed in relation to the European Union (EU-15) average. Basic figures are expressed in Purchasing Power Standards (PPS), i.e. a common currency that eliminates the differences in price levels between countries allowing meaningful volume comparisons of GDP between countries.

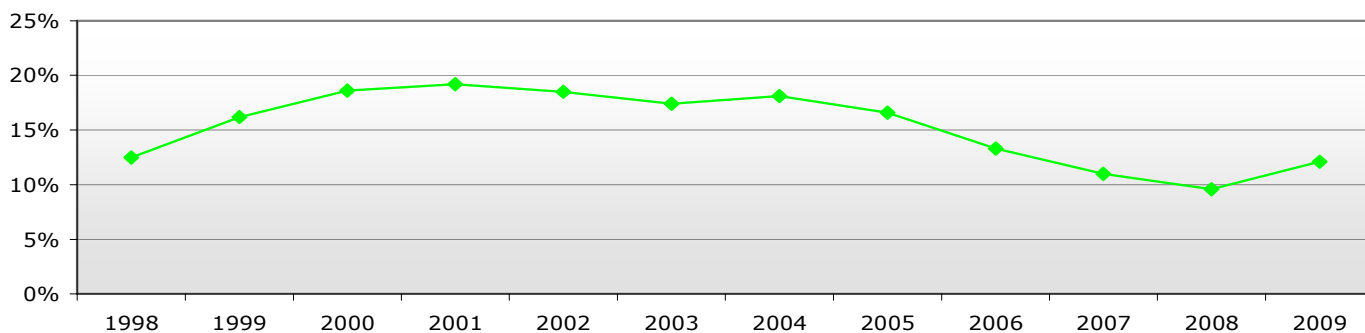
Labour productivity in Slovakia continuously rises. In comparison with the Czech Republic, Poland, Hungary, Romania and Bulgaria, Slovakia had the highest labour productivity in 2008 (data for 2009 are not yet available).



Source: Eurostat, www.epp.eurostat.ec.europa.eu, 2010, EU 15 = 100

Unemployment

In recent years the unemployment level has fallen considerably, thanks also to foreign direct investments, to 9.6% in 2008. However, because of the economic crisis, some companies were forced to discharge employees, thus total unemployment rose to 12.8% in 2009. This means that the availability of skilled and productive labour force has increased.



Source: Central Office of Labour, Social Affairs and Family, www.upsvar.sk, 2010

Please note that there are significant regional differences in the unemployment level within Slovakia.

4 Investment Incentives

The aim of state aid is to promote the economic development of certain disadvantaged areas in the Slovak Republic and is targeted at specific regions in order to eliminate regional disparities and to assist the development of the most disadvantaged regions by supporting investment and job creation.

Forms of investment projects and conditions

The investment projects are divided into four categories that differ as to the subject of the investment.

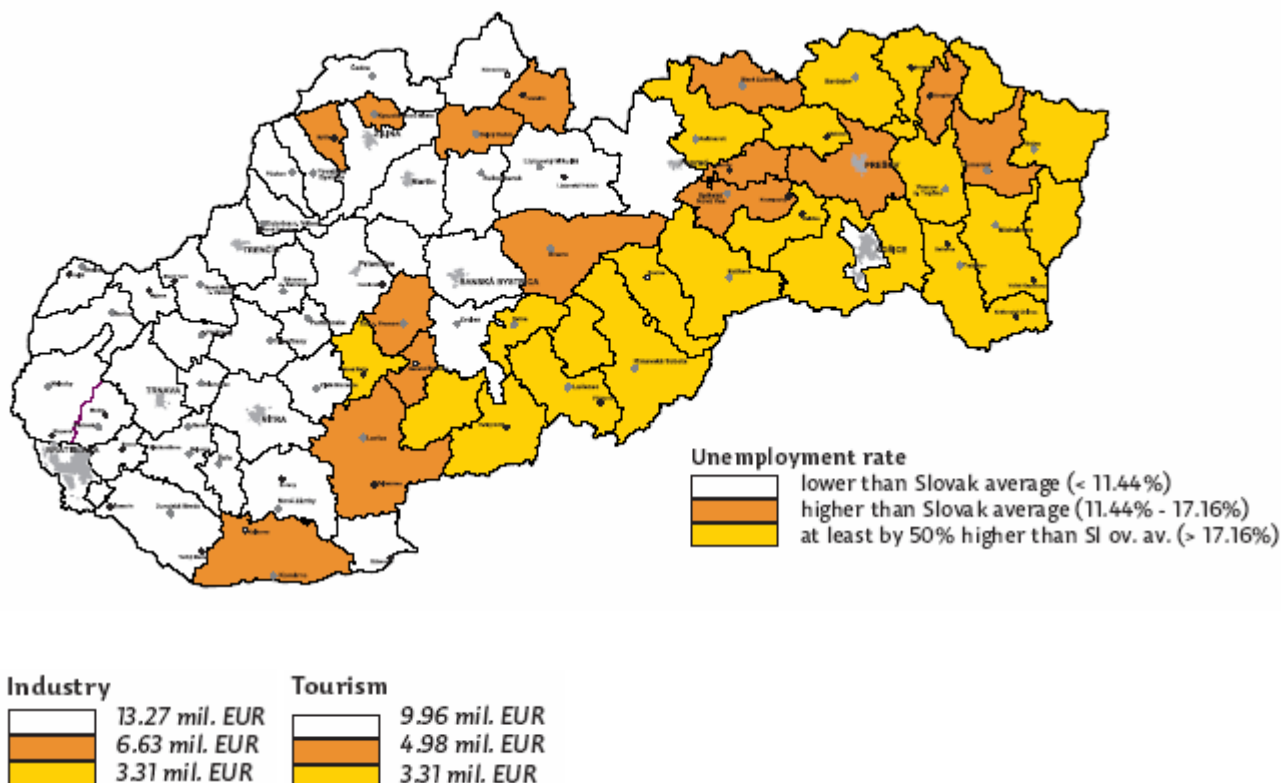
- Industrial production
- Technological centres and Research and Development
- Centres of strategic services
- Tourism.

The **common conditions** for all categories are:

- Incentives are available for the launch of a new entity as well as for the extension of an existing one
- At least 50% of the minimum investment must be covered by own equity of the investor
- Work on the project cannot start before the Ministry of Economy gives its preliminary consent with granting of the aid (takes approx. 3 months)
- The project must be finished within 36 months after the final approval by the Government
- The recipient of the aid can be only a Slovak entity
- The investment plan must be submitted in Slovak
- There is no legal entitlement on state aid

Each type has its **type specific conditions** that have to be met in order to apply for state aid: minimum investment volume, certain share of costs invested into modern technology and a specific education structure of the employees.

The minimum amount of investment in **industry** and **tourism** depends on the unemployment rate in the proposed location:



The minimum amount of investment in **technological centres** is 1.32 mil. EUR and in **shared services centres** 1.16 mil. EUR. The minimum investment amount in these sectors is independent from the unemployment rate in the proposed location.

Additional specific conditions are the following:

Industry <ul style="list-style-type: none"> 40% must be used for the acquisition of new machinery and equipment 	Tourism <ul style="list-style-type: none"> 20% must be used for the acquisition of new machinery and equipment
Technological centres <ul style="list-style-type: none"> the company must employ at least 60% of employees having university education 	Shared services centres <ul style="list-style-type: none"> the company must employ at least 30% of employees having university education

Forms of aid

- cash grant
- partial tax relief
- contribution to new jobs – certain percentage of two-year salary costs per each new employee
- transfer of the state/municipality property to the investor for a discounted price.

Eligible costs

- costs of land acquisition
- costs of buildings acquisition
- costs of technological equipment and machinery acquisition
- intangible fixed assets – licences, know-how, etc.

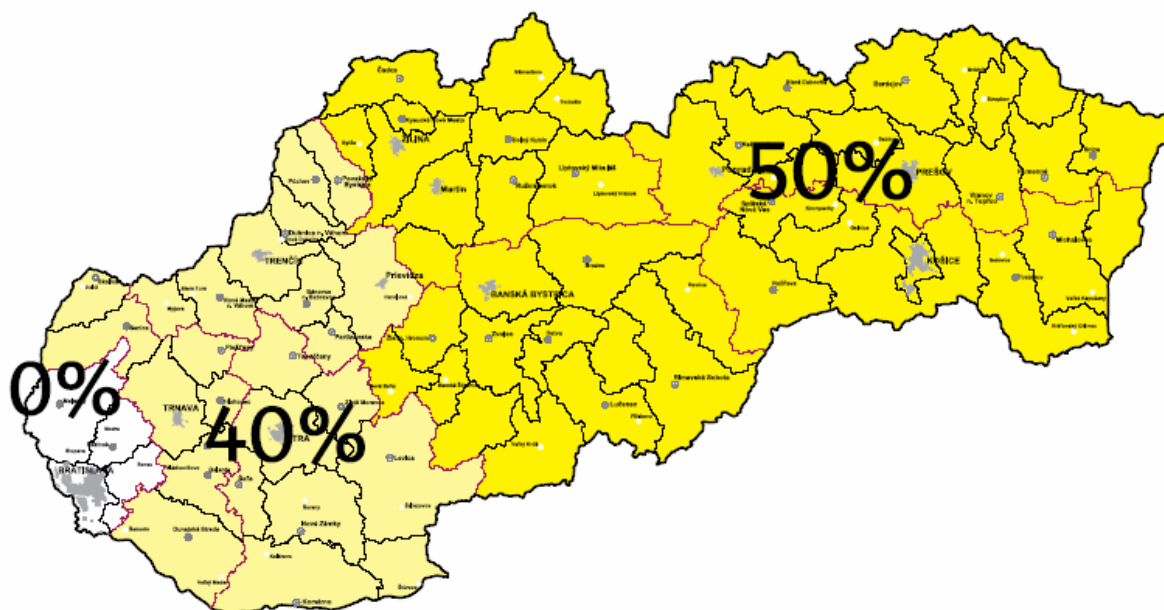
Intensity

Western Slovakia 40%* of the eligible investment costs
(Except the region **Bratislava**, which has been excluded from state aid because of its high economic development.)

Central Slovakia 50%* of the eligible investment costs

Eastern Slovakia 50%* of the eligible investment costs

*The maximum percentage of the aid may be increased by 10% in the case of medium-sized enterprises and by 20% in small-sized enterprises.

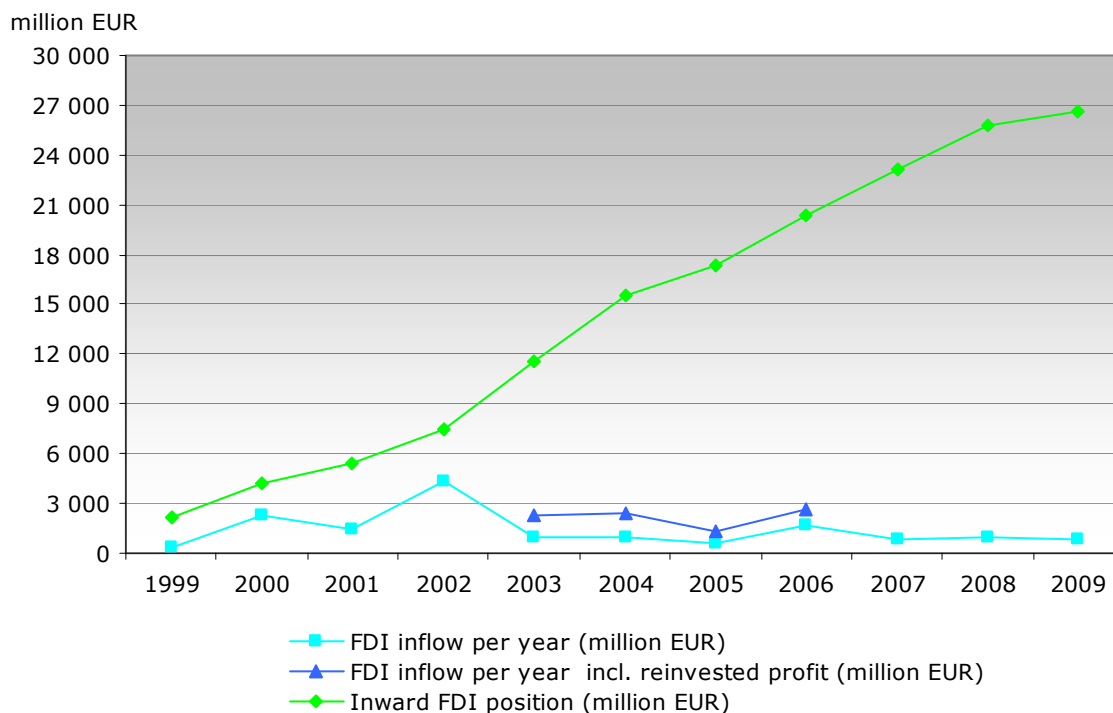


For **up-to-date information** about the investment incentives and state aid, please visit the SARIO website www.sario.sk and the tab *Invest in Slovakia*.

5 Success stories

The advantages of Slovakia as an investment destination are proved by many investors that have already decided to settle in Slovakia. Currently the most important industries in Slovakia are the automotive industry (Volkswagen, KIA Motors, PSA Peugeot Citroen) and electronics (Sony, Samsung, AU Optronics). Important sectors are also machinery, chemical industry and IT services.

Since Slovakia's declaration of independence in 1993, Slovakia has handled several hundred successful investment projects from various countries and in a wide range of industrial sectors. These investment projects have had a substantial impact on the economic growth of the country. The total volume of FDI inflow to Slovakia reached 26 645.06 million EUR by 31 December 2009:



Note: Amount in EUR was calculated with the average exchange rate in the respective year.

Note: From 2003 the NBS has been using a different methodology as in the previous years – it started including reinvested profit in the FDI inflow and inward FDI position. Thus, data from the period 1999 – 2002 (FDI inflow per year, Inward FDI position) contain only equity capital. Data of Inward FDI position in the period 2003 – 2008 contain equity capital + reinvested profit. Data of FDI inflow per year contain equity capital. FDI inflow per year incl. reinvested profit is at the moment not available for 2007 and 2008, 2009.

Source: National Bank of Slovakia, www.nbs.sk, 2010

The table shown below is an overview of the major foreign investors in Slovakia. It includes only the new Greenfield or Brownfield investments, not acquisitions or takeovers:

Country of Origin	Investor
USA	US Steel, Emerson, DELL EMEA Centre of Excellence, Whirlpool, IBM International Services Centre, HP European IT Operation Centre, Johnson Controls R&D Centre, AT&T Shared Services Centre, Accenture Technology Solutions, Getrag Ford (/Deutschland)
Germany	Siemens, Volkswagen, T-Systems
Japan	Yazaki, Mitsui Sumitomo, Sony, Panasonic
Korea	Samsung, KIA Motors, Hyundai Mobis
Taiwan	AU Optronics, ESON, Foxconn, Delta Electronics
France	PSA Peugeot Citroen, Alcatel R&D
Spain	Soitron

6 SARIO one-stop-shop for investors

The Slovak Investment and Trade Development Agency (SARIO) is a governmental investment and trade promotion agency. In Slovakia, and around the world, SARIO provides a range of services to those companies that would like to invest in Slovakia. Our team of experts is ready to help with all aspects of the investment process.

Activities offered by Sario to foreign investors

Comprehensive consultancy services and up-to-date information regarding the investment environment in Slovakia:

- Assistance in implementing investment projects
- Analyses of the investment environment: labour market, taxation, legislation, macroeconomics etc.
- Advice on issues related to starting a business
- Sector and regional analyses
- Selection and recommendation on ideal location and suitable real estate
- Facilitation of communication with national and local authorities, self-governing bodies
- Consultancy in the area of state aid and assistance with applications for investment incentives
- Assistance in finding Slovak partners for joint-venture or suppliers
- Aftercare services for foreign investors already operating in the Slovak Republic
 - Support regarding the expansion, reinvestment and development of research operations
 - Development of investor co-operation with schools
 - Assistance regarding applications for work permits, visas and permanent residence for foreign citizens

The new agenda and one of the priorities of the Sario agency is attracting FDI to tourism in Slovakia. Activities of this agenda include: searching for investment opportunities in Slovakia, creating their database for the possibility of offering them to foreign investors, providing consultations regarding the best investment opportunities and state aid as well as coordination of the preparation of the respective projects.

There are many investment opportunities in Slovakia, which we believe might be of interest to you. We are steadily gathering them for you in our database. Therefore, if you are considering investing in this sector, please do not hesitate to contact us and we can provide you with more information and our assistance.

All our services for foreign investors are free of charge.

For additional information and insight, please refer to our website www.sario.sk and click on *Invest in Slovakia* for information on company registration, taxation and statutory social security contributions, expatriates and labour related legislation as well as the investment incentives of the Slovak Government.

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