State Aid and Investment Incentives in Slovakia

1. State Aid

The Slovak Republic has harmonised the state aid rules with the European Union (EU) legislation after its accession to the EU on 1 May 2004. For this reason, the Slovak Republic may provide state aid only in compliance with the rules laid down at the European Union level.

Since the Treaty on the Functioning of the European Union (TFEU) stipulates the general prohibition of state aid, it may only be provided on an individual basis or within a state aid scheme under exemptions covered by Article 107 TFEU (ex Article 87 of the EC Treaty). Generally, state aid is subject to the approval by the European Commission pursuant to Article 108 TFEU (ex Article 88 of the EC Treaty). However, the EU regulations contain a number of exemptions from the approval of the Commission. The exemptions include:

A. De Minimis Aid (Aid of Small Amount)

The total of de minimis aid in any sector of the economy granted to an individual undertaking shall not exceed EUR 200,000 over any period of three fiscal years. In April 2012, the European Commission adopted a new de minimis regulation for services of general economic interest (SGEI). Examples of SGEI include providing postal services, energy security of supply, electronic communication services, public transport and health and social services.

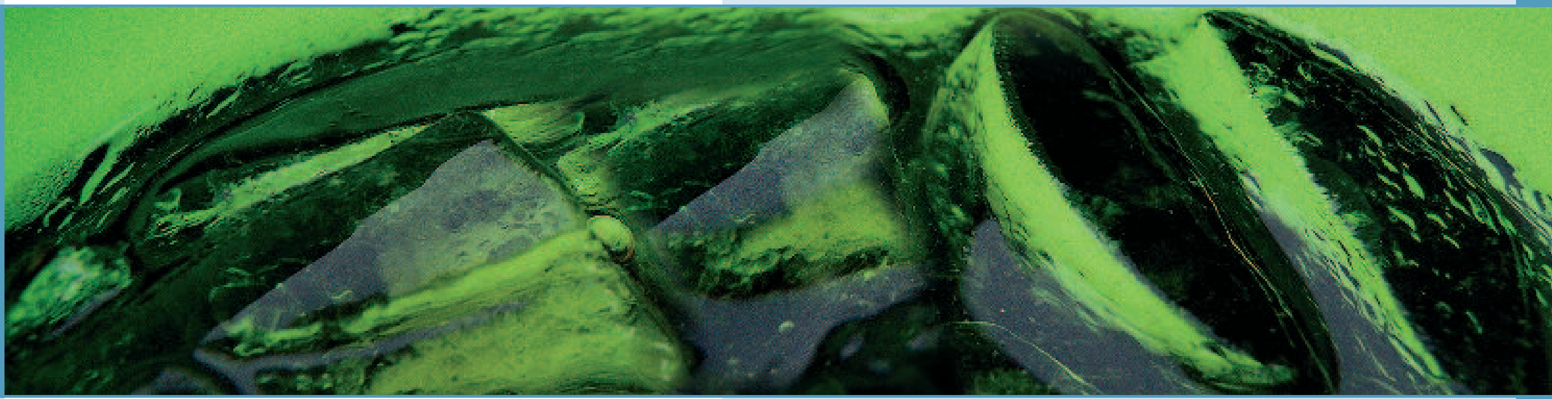
B. General Block Exemption Regulation (GBER)

The GBER consolidates into one regulation and harmonises the rules previously regulated in different regulations. Individual aid measures or aid schemes that satisfy all the conditions laid down in the GBER do not need to be notified to the Commission. The respective Member State is required to submit to the Commission a simple information sheet within 20 working days following the implementation of such aid measure and keep such measure posted on the internet as long as such aid measure is in effect.

The GBER applies to nearly all sectors of the economy, except fisheries and aquaculture, agriculture, export related activities, parts of the coal sector and regional aid aimed at specific sectors of economic activity. The GBER sets forth individual aid ceilings below which it is applicable (per each category of measure).

Applications for the aid from the structural funds under the various operational programs, whether individual or under a certain scheme, are filed with the competent Ministry or to another competent entity entrusted with providing state aid, during time periods specified in applicable calls for submitting projects. There is no legal title to the provision of state aid; its granting remains upon sole discretion of the government authorities.

The rules of GBER apply to the following categories of aid: (i) regional aid; (ii) small and medium-sized enterprises investment and employment aid; (iii) aid for the creation of enterprises by female entrepreneurs; (iv) aid for environmental protection; (v) aid for consultancy in favour of small and medium-sized enterprises and their participation in fairs; (vi) aid in the form of risk capital; (vii) aid for research, development and innovation; (viii) training aid; and (ix) aid for disadvantaged or disabled workers. Further, we



provide more detailed information on three of these categories, which we believe may be of interest to foreign investors.

Both the De Minimis Aid Regulation and the GBER expire at the end of 2013. The European Commission has launched a review of these two regulations as part of its State aid modernization initiative. The European Commission is expected to draw up a proposal of the regulations by the end of 2013.

C. Training Aid

The conditions under which aid granted for training is exempt from the approval by the European Commission include direct reference to the relevant EC Regulation, maximum amount of participation of aid in the investment which differs according to the level of economic development and standard of living of the region where it is provided, types of training costs, etc. The exemption shall not apply if the amount of aid granted to one enterprise for a single training project exceeds EUR 1 million.

Aid to Small and Medium Enterprises (SMEs)
The aid to SMEs shall be exempt from the approval by the Commission provided that it fulfils all the conditions of the GBER, such as the maximum aid intensity (that differs depending on the aid measure), and type of investment (e.g. investment to tangible and intangible assets, IP rights costs), etc.

The GBER stipulates conditions for the following main aid types exclusively for SMEs: (i) SME investment and employment aid; (ii) aid for small enterprises newly created by female entrepreneurs; (iii) aid for early adaptation to future Community standards for SMEs; (iv) aid for consultancy in favour of SMEs; (v) aid for SME participation in fairs; (vi) aid for industrial property rights costs for SMEs; (vii) aid for innovation advisory services and innovation support services. In addition to the above measures which are exclusively to SMEs, SMEs are also eligible for the other types of aid listed in the GBER.

Training Aid
Due to an exception to the general scope of the GBER, training aid is allowed even for fisheries and aquaculture sectors, as well as for the primary production of agricultural products and in the coal sector. The GBER authorises aid for general training as well as for specific training.

The exemption from individual notification shall not apply if the amount of aid granted to one enterprise for a single training project exceeds EUR 2 million.

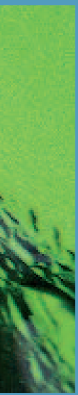
Aid for Employment
The GBER provisions on employment aid cover only aid granted for the following purposes:

(i) the recruitment of disadvantaged workers in the form of wage subsidies;
(ii) the employment of disabled people in the form of wage subsidies;
(iii) to compensate the additional cost of employing disabled people.

The criteria for maximum aid intensity and individual notification thresholds are similar to those mentioned above.

2. Investment Aid

The Slovak government also provides a specific type of individual state aid in accordance with the rules laid down by the Act on Investment Aid, which is granted from the state budget. The Act on Investment Aid has been enacted as a state aid scheme, and, therefore, an investment aid does not need to be approved or notified to the Commission individually if it has been granted under the Act on Investment Aid and does not exceed individual notification thresholds under Article 6 of the GBER. Depending on the type of a project and category of state aid, these individual notification thresholds range from EUR 2 million to EUR 20 million per undertaking (except for EUREKA projects) expressed in the gross grant equivalent of provided individual aid, whether granted ad hoc or on the basis of a scheme.
The investment aid supports regions with the highest



unemployment rate mainly in the sectors of industry production, development of technological centres, strategic services centres and tourism centres.

The investment aid can be provided in the following forms: (i) cash subsidy for acquisition of long-term tangible and intangible assets; (ii) income tax relief; (iii) cash subsidy for creating new jobs; and (iv) transfer or switch of real estates for a price lower than a general value of the respective property.

Conditions for obtaining the investment aid differ depending on the type of the project and region where potential investment project will be situated. There is no legal title to the provision of investment aid to the investor and it is solely upon discretion of respective government authorities, even if the conditions stipulated by law are met.

The conditions for provision of investment aid in industry production are as follows:

(i) acquisition of long-term tangible and intangible assets in the value of at least EUR 10,000,000 out of which at least 50% must be covered by the investor's own resources;

(ii) acquisition of new production and technological facilities, which must be determined for production purposes in at least 60% of the overall value of the acquired long-term tangible and intangible assets;

(iii) the investor's production, activities, procedures, buildings, or production and technological facilities must meet requirements for environment protection;

(iv) the implementation of the investment project results in creation of new jobs;

(v) the investment project is being implemented at one place (meaning a real estates forming one "enterprise land").

In the regions in which the unemployment rate is higher than the average unemployment rate for the whole Slovak Republic, the minimum value of acquired assets decreases down to EUR 5,000,000, and the value of the acquired new production and technological facilities decreases down to 50% of the overall value of the acquired long-term tangible and intangible assets. In the regions in which the unemployment rate is higher than the average unemployment rate for the whole Slovak Republic by at least 50%, the minimum value of acquired assets decreases down to EUR 3,000,000, and the value of the acquired new production and technological facilities decreases down to 40% of the overall value of the acquired long-term tangible and intangible assets.

The conditions for provision of investment aid for other types of projects are similar. For technological centres the value of acquired assets must be at least EUR 500,000 out of which 50% must be covered by the investor's own resources, employees with university education must form at least 70% of all employees, and the implementation of the investment project results in creation of new jobs. In case of strategic services centres, the value of assets must amount to at least EUR 400,000 (50% covered by the investor's own resources), the employees with university education form at least 60% of all investor's employees, and the implementation of the investment project results in creation of new jobs.

Finally, the conditions for provision of investment aid to tourism include the minimum value of acquired assets of EUR 10,000,000 (at least 50 % covered by the investor's own resources), at least 40% of the value of all acquired long-term tangible and intangible assets must be formed of new technological equipment serving for provision of services, the services, activities, procedures and buildings must meet requirements for environment protection, the implementation of the investment project results in creation of new jobs, and the investment project is being implemented at one place (meaning real estates forming one "enterprise land"). In the regions in which the unemployment rate is higher than the average unemployment rate for the whole Slovak Republic, the minimum value of acquired assets decreases down to EUR 5,000,000, out of which at least EUR 2,500,000 must be covered by the investor's own resources, and the value of new technological equipment serving for provision of services decreases down to 20% of the overall value of the acquired long-term tangible and intangible assets.

The investor shall prepare the investment project and send it for examination to the Ministry of Economy of the Slovak Republic or the Ministry of Transport, Construction and Regional Development of the Slovak Republic in the case of investment aid for tourism industry. Within 45 days from its submission, the respective ministry elaborates the expert evaluation of the project. In case it follows from the expert evaluation that the investment project is eligible for provision of the investment aid, the respective ministry informs the investor and prepares the investment aid proposal for the authorities providing the investment aid in 30 days from the delivery of the expert evaluation. The respective investment aid providers shall provide their statements to the investment aid proposal within 30 days from the delivery of the investment aid offer. Finally, in case the investment aid providers agree with the proposal, the respective ministry prepares and submits to the investor an investment aid offer within 30 days from the delivery of the statements of the investment aid providers (within 135 days altogether after submission of the investment project to the respective ministry).
Subsequently, the investor has a 60-day period to send the application for investment aid to the respective ministry based on the investment aid offer, and the respective ministry will then submit the proposal for provision of investment aid to the Slovak government for approval. If individual notification thresholds under Article 6 of the GBER are exceeded, after the government's approval, the respective ministry shall seek also the approval by the Commission in accordance with EC Regulation No. 794/2004 (implementing EC Regulation No. 659/1999).

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3. Aid for Research, Development and Innovations

In Slovakia, provision of aid for R&D is regulated by the Act on Incentives for Research and Development. This Act has been enacted as a scheme and therefore aid for R&D granted under this Act does not need to be approved or notified to the Commission individually if it does not exceed individual notification thresholds under the GBER. The aid for R&D is financed from the Slovak state budget and the procedure for its granting is administered by the Ministry of Education of the Slovak Republic.

The aid for R&D may be granted in the following forms:

(i) as a cash subsidy for projects of fundamental research, applied research or experimental development, for technical feasibility studies of projects, for lending highly qualified employees for research and development, and for assuring the protection of industrial property rights; or
(ii) as an income tax relief in the amount of tax to be paid from a proportional part of the tax base, which is calculated by multiplying the tax base with a coefficient defined by law.

4. Employment Support Scheme

The employment support scheme is considered to be state aid. Contrary to the above-described forms of state aid, if an employer fulfils all the conditions stipulated by law to be granted a contribution under the employment support scheme, he has a legal title to it. However, the Slovak government sometimes decides on provision of this type of state aid within the investment aid while it releases some of the strict conditions set by the law.

The Act on Employment Services currently regulates the following types of employment supports potentially applicable for investors:

- Contribution for individual profit-making activity
- Contribution for employment of disadvantaged unemployed
- Contribution for supporting the development of local and regional employment
- Contribution for supporting the sustaining of jobs
- Contribution for graduates' practice
- Contribution for creation of a new job
- Special contributions for employment of disabled persons (e.g. contribution for opening the protected workshop or protected workplace, contribution for sustaining the job of a disabled person, contribution for covering the operating expenses of the protected workshop or protected workplace).

5. Industrial Parks

Industrial parks represent a great opportunity for an investor to start its activities in Slovakia in a very short time and under favourable conditions. List of industrial parks is published by SARIO (Slovak Agency for Development of Investment and Trade, www.sario.sk).

Prospective investors may obtain a suitable plot of land within an industrial park for a long-term rent for a token price since the land is usually either a state or municipality property. After a certain period of time, investors may get an option to purchase the land. The conditions in a particular case depend on the agreement between the investor and the founder of the industrial park which is usually the municipality or self-governing region.

Other advantages of the industrial parks include: (i) settled ownership relations, (ii) issued permits for use of land, (iii) finalised transport and technical infrastructures, (iv) technical and other (legal, accounting, logistic) counselling and assistance provided by the management of the industrial park, (v) provision of security services, and (vi) location in regions with skilled labour force available.

In addition, Slovakia has introduced a special procedure for the acquisition of land to be used for locating a plant of an investor in case of any "significant investments". Within the procedure, the Slovak government is authorized to decide that an investment of a minimum value of EUR 100,000,000, which is of economic significance or leads to creation of at least 300 new jobs, and in certain regions of Slovakia with the unemployment rate exceeding 15 % even an investment of EUR 50,000,000, shall be regarded as an investment in the public interest and, therefore, the land on which the investment shall be implemented may be subject to expropriation proceedings.