Investment in Slovakia

KPMG IN SLOVAKIA

AUDIT ▪ TAX ▪ ADVISORY

Investment in Slovakia

KPMG IN SLOVAKIA

10th edition
With quick-reference Tax Card

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This publication was prepared with the assistance of law firm **SKLEGAL**.
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Preface

Dear reader,

Many thanks for taking the time to read this short but concise guide to investing in Slovakia. All of us here at KPMG hope that you will find it helpful and informative.

This publication presents an overview of matters to be considered by those thinking of investing or doing business in Slovakia. While the publication covers the relevant areas, it is not exhaustive and is not intended to provide the comprehensive information necessary to make investment decisions. Matters in Slovakia are still subject to frequent and rapid change in line with the country's economic development.

Investing in any new location is always a challenge and even the most experienced business people need support and advice, together with total confidence in their professional advisers. We have prepared this booklet to provide general background information as a guide to your preliminary planning efforts. We recommend that you obtain comprehensive advice before taking any action. With over 300 staff based in Bratislava, and a breadth of skills and abilities, which I believe to be second to none, I hope that you will choose KPMG when it comes to selecting your advisers.

July 2009

Ľuboš Vančo
Managing Partner
KPMG Slovensko spol. s r.o.

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Why Slovakia?

1. 350 million potential customers within a radius of 1000 km.
2. Almost the whole of the EU within a radius of 2000 km.
3. Gateway to the Balkans and another 440m inhabitants.
4. Politically stable.
5. EU Member State.
6. Member of the Schengen area.
7. Euro adopted as of 1 January 2009.
8. 19% flat tax regime.
9. No withholding taxes on dividends.
10. Investment incentive packages (subject to EU rules).
11. Highly skilled and flexible workforce.
12. Low cost of labour versus high labour productivity.
13. Low cost of living.
14. Wide selection of land available for purchase.
15. Excellent telecommunications infrastructure.
16. Highway network growing steadily.
17. Very good rail services for both passengers and freight.
18. Trans-European water transportation via the River Danube.
19. Direct international air services between Bratislava and many European cities, and Vienna International Airport just 30 minutes from Bratislava.
20. A country of considerable natural beauty.

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Chapter 1

General Information

Geography and Climate

The Slovak Republic (also referred to as 'Slovakia') is a country of 49,000 square kilometres, situated in the heart of Europe. Much of the border to the north of the country is made up of the Carpathian and Tatra mountains, with the River Danube to the south. Slovakia shares borders with Poland, the Ukraine, Hungary, Austria and the Czech Republic.

Slovakia is a mountainous country with its highest peak, Gerlachovský štít (2,655m), situated in the High Tatras. The Danube is the largest Slovak river in terms of water volume, while the Váh is the longest (390km).

The country is not rich in natural resources, but has deposits of black coal, lignite, iron, non-ferrous ores, and gold.

The climate is varied with relatively hot summers and cold winters, especially in the mountains.

Bratislava (population 450 thousand), the capital city, is strategically situated on the River Danube downstream from Vienna close to the Austrian and Hungarian borders. The second largest city, Košice, is located in the east of the country near the Ukrainian border and is the most important banking and economic centre after Bratislava.

History

Slovakia has a long and important cultural and scientific history. Archaeological evidence suggests that, by the 5th century, the Slav tribes living in Western Slovakia had united under the rule of kings and moved to the East. At the start of the 11th century Slovakia was incorporated into the multinational Hungarian State. The Slovaks became subjects of the Polish Jagellonian dynasty at the end of the 15th century. Due to the Turkish military threat in central Europe, the Austrian Habsburgs took control of the Czech and Hungarian thrones and created a multinational monarchy lasting until 1918.

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Slovakia together with the Czech Republic formed an independent Czechoslovak state at the end of the First World War. In March 1939 (during the Second World War) Slovakia became a "free state" and nominally independent.

Following World War II Czechoslovakia was re-established. After the seizure of power by the Communists in February 1948, the "socialist industrialisation" of Slovakia became one of the aims of the government. In the 1960s some Czechoslovak communists, lead by Alexander Dubček, a Slovak, tried to initiate a reform programme under the slogan "socialism with a human face". The invasion by the Soviet-led Warsaw Pact army in August 1968 put an end to the reforms of that period. Czechoslovakia was constitutionally reorganised in 1969 into a federation of the Czech and Slovak Republics.

Mass street protests throughout Czechoslovakia in November 1989 led to many governmental changes at the turn of the year. This "velvet revolution" ended Communist rule in the country. In November 1992 a law was enacted in the Federal Assembly enabling the dissolution of Czechoslovakia and the separation of the Czech and Slovak Republics on 1 January 1993.

The Political System

The Slovak Parliament, or the "National Council", is the sole constitutional and legislative body of the country. There are 150 Members of Parliament elected for a four-year term. Elections are held on the basis of proportional representation with a requirement to obtain a minimum of 5% of the ballot to qualify for a seat. The President is the head of state, elected directly in presidential elections and serves a largely ceremonial function. The Slovak Government is the head of the state executive powers. The Government is appointed by the President upon the recommendation of the Prime Minister. The President also appoints the Prime Minister, who is usually the leader of the party winning a general election.

The 2006 election replaced the center-to-right leadership with a coalition of left oriented Smer-SD (Smer – Social Democracy), center-to-left ĽS-HZDS (People's Party - Movement for Democratic Slovakia) and the nationally oriented SNS (Slovak National Party).

Strategy for economic development

The government is expected to change certain economic reforms implemented over the past few years, in order to add a social focus.

The main areas for change are healthcare reform, which has proven to be very unpopular and is subject to broader revisions, and potentially pension reform with a greater focus on the state pension system.

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Other key aims include:

- Actively support the establishment of public-private partnerships in the field of management and generation of public assets and the provision of public services.
- Revise certain reforms implemented by the former government, mainly in healthcare, the pension system, labour law and education with a greater focus on social aspects and solidarity, as well as on public administration systems with an aim to reduce the financial burden on fiscal spending.
- Improve infrastructure to attract high value-added investments and decrease unemployment.
- Remove regional disparities within Slovakia and support balanced development through out all regions, applying investment incentives programmes and the pro-active use of EU structural funds.

International Affairs

Slovakia is a member of the OECD and WTO and on 1 May 2004 joined the EU and on 21 December 2007 the Schengen area. Slovakia became a member of the Eurozone as of 1 January 2009 with conversion rate set at 30.1260 SKK/EUR.

The country belongs to NATO and is involved in several ongoing operations under NATO and United Nations command.

Other international memberships include: UNESCO, OECD, OBSE, CERN, WHO, INTERPOL, etc.

Population

The population of Slovakia is currently 5.4 million with a working population of 2.6 million. The influence of religion on the population is still significant, with over 60% of Slovaks being Roman Catholic.

Life expectancy, compared with Western European countries, is relatively low at 70.5 years for men and 78.2 for women.

The educational level of the population is generally high with compulsory basic schooling for all. While the younger generations are generally proficient in foreign languages, knowledge of Western languages still has room for improvement.

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Chapter 2

Opportunities for International Investors

Introduction

The influx of foreign direct investment (FDI) into Slovakia has shown a continued increasing trend from 2000 to 2007 as foreign investors have discovered Slovakia and now recognise the country as one of the most attractive destinations for investment not only in the growing Eastern European markets but within Europe as a whole.

Although a small country and a "slow-starter" compared to its immediate neighbours - - the Czech Republic, Hungary and Poland - Slovakia began a comprehensive privatisation programme in the late 1990's which was largely completed by 2005-6.

As a result, foreign investors from Europe and the US have obtained important stakes in many of the key former state-owned institutions – banks, electricity producers and distributors, the natural gas utility and telecoms to name a few. The effect of this privatisation programme on the development of the Slovak economy is becoming increasingly evident.

Aside from privatisation opportunities, Slovakia has become a key target for greenfield investments in the automotive sector, with PSA Peugeot Citroen having completed the construction of a plant near Trnava, approximately 40 km from Bratislava with an investment of EUR 700 million.

In 2004, the South Korean car manufacturer Kia Hyundai announced a potential EUR 700 million investment in Slovakia to construct a plant in the north of Slovakia. The total investment increased to EUR 1 billion. This plant commenced operations at the end of 2006. Another South Korean investor, Samsung, has also invested significantly in to what is known as the "Crystal Valley". Samsung has invested EUR 320 million in Trnava and over EUR 100 million in Voderady for the assembly of flat screen televisions sold throughout Europe.

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A driving force behind the increase in FDI has been primarily the investor-friendly policies adopted by the previous Slovak government. The next general elections are due in 2010 and the political balance of power may shift as a result of the economic crisis. Many laws and instruments have been introduced within the past few years to help foreign investors. The current government has not significantly reversed any investor-friendly reforms that were put in place by their predecessors.

In 2008 Volkswagen announced they are to invest over EUR 300 million in a new car production plant in Bratislava. From 2011 the plant will build Volkswagen's next generation small family car - the UP!. This is an extremely positive development at a time when the international economic downturn reduced FDI in EU27 countries by 57% in 2008. Slovakia is not immune to the downturn but entry to the Eurozone in 2009 and a cheap, flexible and skilled workforce still offers an attractive environment for investors.

FDI net (% GDP)

TABLE 1

	2003	2004	2005	2006	2007	2008
Slovakia	2.2	3.3	3.7	7.6	3.5	3.4
Hungary	0.6	3.3	4.7	5.4	1.1	3.1
Poland	2.0	4.7	2.1	5.7	3.4	2.4
Czech Republic	2.1	3.7	8.1	4.2	4.5	4.1

Source: World Bank Regular Economic Report, June 2008; Economist Intelligence Unit, June 2009

Cumulative FDI in 2007 by economic activity (in %)

TABLE 2

	2007
Industrial production	42.3
Financial services	18.5
Wholesale, retail trade	8.4
Electricity, gas and water supply	19.6
Transport, storage and communications	5.5
Real estate, rental and business activities	3.8
Construction	1.2
Other activities	0.5

Source: National Bank of Slovakia, preliminary data

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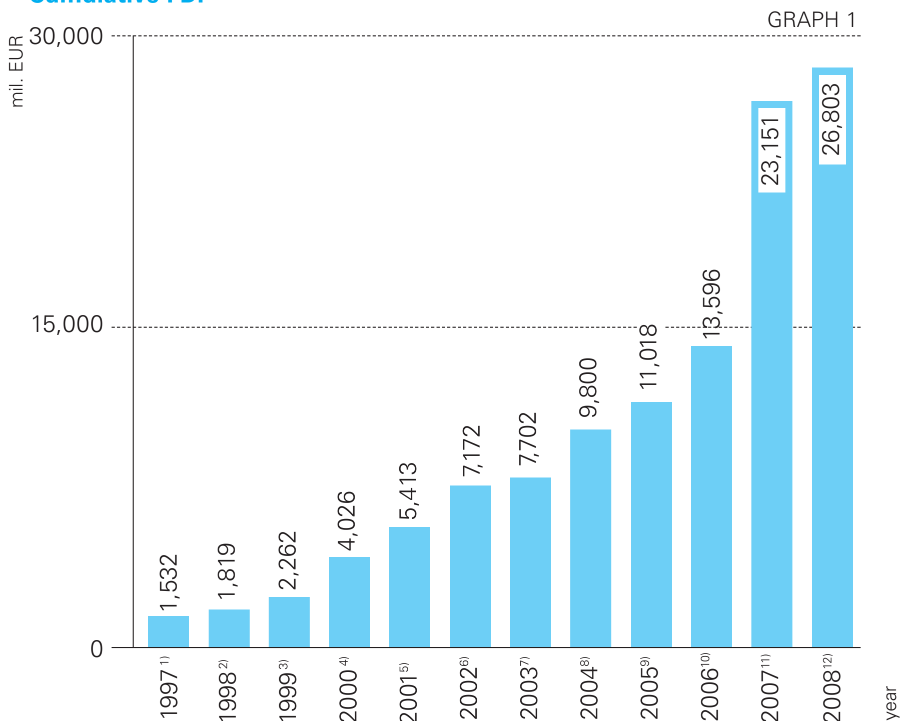
Historically, FDI inflows have been heavily concentrated in the western regions of the country, which are geographically closer to the rest of Western Europe, Slovakia's main source of FDI. Bratislava alone absorbed 73.7% of total FDI up to the end of December 2006. The industrial region of Zilina, which ranked second, only accounted for 13.4% of the total FDI inflow.

Slovakia has recently seen many large scale commercial and residential property developments. A large project which commenced construction in 2007 is the Eurovea development by the Ballymore group with the first phase investment totaling EUR 270 million. However, since the onset of the financial crisis many real estate developments have been put on hold. Banks are reluctant to provide finance as the full effects and consequences have yet to unfold.

Nevertheless, the major Slovak banks appear to remain fundamentally secure and, according to the National Bank of Slovakia (NBS), in May 2009 mortgage drawings were up 0.8% m/m to EUR 4.3 billion.

Cumulative FDI

GRAPH 1



[1] 37.938 SKK/EUR (synthetic exchange rate); [2] 43.186 SKK/EUR (synthetic exchange rate)
[3] 42.458 SKK/EUR; [4] 43.996 SKK/EUR; [5] 42.760 SKK/EUR; [6] 41.722 SKK/EUR; [7] 41.161 SKK/EUR; [8] 38.800 SKK/EUR; [9] 37.848 SKK/EUR; [10] 35.025 SKK/EUR; [11] 33.781 SKK/EUR, including equity capital and reinvested profits; [12] 30.126, including equity capital and reinvested profits

Source: The Statistical Yearbook of the Slovak Republic 2006; National Bank of Slovakia

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A slow-down has been observed in recent months largely attributed to the knock-on effect of the "credit crunch" but this has not affected the robustness of the Slovak economy to date but has instead largely resulted in additional controls being put in place by the banking institutions to control the lending they make rather than any withdrawal of capital available.

Cumulative and 2008 FDI by country of origin (in %)

TABLE 3

	Cumulative	2008
Netherlands	19.9*	(2.7)*
Austria	14.2	4.0
Italy	13.5	2.7
Germany	13.0	3.1
Hungary	7.7	-
Czech Republic	7.7	54.2
Cyprus	5.0*	20.5*
Luxembourg	3.6 *	1.1*
South Korea	2.7	3.1
Others	12.1	14.0

Source: National Bank of Slovakia, preliminary data

** These figures may be slightly misleading as many foreign investors from Europe and elsewhere use investment vehicles from Cyprus, Luxemburg or the Netherlands for the purposes of servicing their investments in Slovakia.*

Strategic Position

Geographically, Slovakia is at the very centre of Europe, with a combined market potential of over 350 million people in the surrounding area. Several principal transport routes (road, rail and river) as well as oil and gas pipelines cross the territory of Slovakia east and west, and north and south. As a result Slovakia has become a strategic hub within Central and Eastern Europe, and a gateway to the east and the emerging economies of Russia and the Ukraine.

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Membership in International Organisations

Slovakia is both an OECD and WTO member. In 2004, Slovakia became a full member of both the EU and NATO. 90% of Slovak exports are to OECD countries.

Slovakia was the first Visegrad country to qualify for the Eurozone with euro adoption from 1 January 2009 at the official conversion rate 30.1260 SKK/EUR.

Visegrad 4 is a group including Slovakia, Hungary, Poland and Czech Republic, formed in 1991 to re-establish cooperation between these four states in order to further the process of European integration. Slovakia entered the ERM II in November 2005.

Industrial Traditions

Slovakia prides itself on its industrial heritage which has provided a stable base for the further development of certain key sectors such as electro-technology, automotive, engineering and wood processing. Recent new developments have been observed in information technology related services.

Success Stories

- Alcatel
- Ballymore
- DELL
- Delphi
- Deutsche Telecom
- EdF
- Emerson Electric
- EON
- Gaz de France
- IKEA
- Heineken
- Hewlett Packard
- Immoeast
- Johnson Controls
- KIA
- Lenovo
- Panasonic
- PSA Peugeot
- Motorola
- Orange
- O2
- Rodamco
- RWE
- Samsung
- Siemens
- Sony
- Tesco
- US Steel
- Volkswagen
- Whirpool

Over the last 5-6 years, a large number of the key global corporate players covering a wide range of sectors have targeted Slovakia for investment.

Significant investment projects in the automotive industry such as PSA Peugeot Citroen and KIA, in Trnava and Zilina respectively, have been completed and have commenced production. As a result, the demand for supplies for these complexes has attracted a large number of foreign players who have either set up their own greenfield initiatives or acquired an existing local player. The Slovak electronics industry is also becoming increasingly important with substantial investments having been made by global giants such as Samsung and Sony into LCD panels and TV set production.

Over recent years, Slovakia has also become a favourite target for many of the global property developers and investors, with Ballymore, Heitman and Rodamco having entered the market with significant projects already completed or in the process of being so.

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Regional Comparisons 2008

TABLE 4

Indicators	SK	HU	CZ	SLO	LTU	LTV	EST
Population (in millions)	5.4	10.2	10.2	2.0	3.5	2.3	1.4
CPI inflation, % y/y	4.6	6.1	6.3	5.7	11.1	15.4	10.4
GDP growth, % y/y	6.4	0.6	3.2	3.5	3.0	-4.6	-3.6
Gen. Government deficit, % of GDP	-2.2	-3.4	-1.4	-0.9	-3.2	-4.0	-3.0
Current account deficit, % of GDP	-6.5	-8.4	-3.1	-5.9	-11.6	-12.6	-9.2
Unemployment rate, % labour force	9.5	7.8	4.4	4.4	5.8	7.5	5.5
Public debt, % of GDP	27.6	73.0	29.8	22.8	15.6	19.5	4.8

Key: SK = Slovakia, HU = Hungary, CZ = Czech Rep, SLO = Slovenia, LTU = Lithuania, LTV = Latvia, EST = Estonia
Source: World Bank EU-8+2 Statistical Annex 2009.

Key Indicators *(% unless otherwise indicated)*

TABLE 5

Indicators	2001	2002	2003	2004	2005	2006	2007	2008 p)
Real GDP growth	3.3	4.4	4.2	5.5	6.0	8.3	8.9	7.5
Annual inflation (%, HICP)	7.3	3.3	9.3	7.5	3.7	4.2	2.6	3.1
Real wage growth	0.8	5.8	-0.6	2.5	6.3	3.3	4.1	4.1
Unemployment	18.6	17.5	15.3	14.3	16.2*	13.3*	11.0	10.0
Government balance (% of GDP)**	-4.6	-4.8	-3.6	-3.1	-3.5	-3.3	-2.5	-2.3
Current account balance (% fo GDP)	-8.8	-8.2	-1.2	-3.5	-8.6 A)	-7.5 A,P)	-2.0	1.9
Exchange rate SKK:USD (aver.)	48.6	45.3	36.8	32.3	31.0	29.7	25.5	25.9
Exchange rate SKK:EUR (aver.)	43.3	42.7	41.5	40.1	38.6	37.2	33.5	30.126 B)

*Key: p – projected; * ILO methodology; ** including pension reform cost; A) including re-invested profit; B) official SKK:EUR conversion rate announced 8 July 2008;*
Source: Statistical Office, National Bank of Slovakia, Trend Analyses

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The Slovak economy has been following a path of robust growth driven by rising FDI inflows. These significant levels of FDI for a country of Slovakia's size is expected to assist in the creation of a stable economic base from which the country's economy can grow increasingly stronger.

There is an increasing focus under the current government on public infrastructure projects with four tenders having been announced for public private partnerships to assist in the development of three stretches of highway in Slovakia and Electronic tolling with these tenders having already been completed or expected to be completed in 2009. Foreign-based consortiums have played a leading role in these tenders.

Sovereign Rating from 1998 to 2008

(Long-term Foreign Currency Sovereign Rating)

TABLE 6

Year	Rating Agency			
	Standard&Poor's	**Moody's**	**FITCH**	**R&I**
2008*	A positive outlook	A1 positive outlook	A+ stable outlook	A
2007	A stable outlook	A1 stable outlook	A positive outlook	A-
2006	A stable outlook	A1 stable outlook	A stable outlook	A
2005	A stable outlook	A2 positive outlook	A- stable outlook	BBB+
2004	BBB+ positive outlook	A3 positive outlook	A- stable outlook	BBB
2003	BBB positive outlook	A3 stable outlook	BBB positive outlook	BBB
2002	BBB positive outlook	A3 stable outlook	BBB- positive outlook	BBB-
2001	BBB- positive outlook	Baa3 stable outlook	BB+ positive outlook	BBB-
2000	BB+ positive outlook	Ba1 positive outlook	BB+ stable outlook	BB+
1999	BB+ stable outlook	Ba1 stable outlook	BB+	BB+
1998	BB+ negative outlook	Ba1 negative outlook	BB+	BBB-

**From June 2008*
Source: National Bank of Slovakia

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GDP growth in 2007 has been reported at 8.9% with over 7% growth in GDP in 2008. Exports are being driven mainly by expanding production in the motor car and electronic industries. Private domestic demand, however, remains one of the key engines for GDP development in the future. The current account deficit appears to have returned to a more sustainable level and further improvement is expected.

Inflation remains at low levels and given the impact of the economic downturn is expected to remain low. Historically the 12 month average until March 2008 was well below the level needed for the euro-entry in accordance with the Maastricht criteria at 2.2%.

Reforms

The current Slovak government elected in mid 2006 has been more cautious than anticipated in dismantling some of the previous government's decisions. The reforms improved Slovakia's appeal to foreign investors but were opposed by some citizens leading to the change in government. The government has forged good links with the business world and remains reluctant to amend any legislation that would be detrimental to foreign investors.

In 2008 the government passed reforms focused on research and development, education, employment, the business environment and energy policies which will cost EUR 2.5 billion by 2010. As a commitment to the EU's green energy policy, Slovakia aims to produce 14% of national consumption using renewable energy.

Taxation %

TABLE 7

	CIT Rate*	Tax rate on Dividends
Slovakia	19.0	0.0
Hungary	16.0	0.0
Poland	19.0	19.0
Czech Republic	21.0	15.0

**Corporate Income Tax Rate*
Source: KPMG Slovensko spol. s r.o.

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A Highly Competitive Tax Regime

The progressive business-friendly tax regime has been in effect since January 2004. The new government has so far made only minor amendments by reducing the comprehensive flat rate of 19% to 10% for VAT on pharmaceuticals and medical products and tax allowances have been gradually decreased to zero for those with an annual income above EUR 19.920 (SKK 600,000).

Further changes in 2009 are introduction of the VAT grouping possibility, the re-introduction of thin capitalization rules on related party financing (such rules were abolished under the previous government) and new documentary requirements for transfer pricing purposes, especially between foreign parent and domestic subsidiaries.

Average monthly gross salary in 2007 (EUR)

TABLE 8

Slovakia	596
Hungary	736
Poland	711
Czech Republic	782

Source: SARIO (Slovak Investment and Trade Development Agency)

Average hourly cost of labour (EUR)

TABLE 9

Country	2005	2006	2007
Germany	27.2	27.7	n/a
Eurozone	24.7	n/a	17.7
Hungary	6.1	6.3	7.3
Czech Republic	6.6	7.1	7.9
Poland	5.5	6.1	7.03
Slovakia	**4.8**	**5.3**	**6.15**
Romania	2.3	2.7	3.56

Source: Eurostat

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Low Labour Cost

Although productivity rates are similar, labour in Slovakia is approximately 30% cheaper than in the Czech Republic, Hungary and Poland (its immediate neighbours) and six times lower than much of Western Europe.

Challenges

In the opinion of the EU's Cohesion policy, Slovakia's key challenges in order to keep pace with the EU's action and development plan for the years 2007-2013, the so-called Lisbon strategy include:

- Infrastructure and regional accessibility: building and modernisation of public infrastructure to improve the availability of infrastructure in the regions and raise the efficiency of the related public services. The focus is on transport, environmental, educational and social infrastructure and urban renewal.
- Knowledge economy: supporting the development of a knowledge-based economy via investments in electronic services and content, research and development and support of competitiveness of companies and of services through innovation.
- Human resources and education: support to human resources development will be aimed at employment growth, improvement of the quality of workforce and human capital for the needs of the knowledge-based economy and increase of social inclusion of disadvantaged groups.

Summary

Slovakia's economic performance over the last 5-6 years has outpaced its peers and that of the established EU economies. However, after years of privatizations a new phase of economic development must focus on the small to medium enterprise sector as well as large infrastructure projects and greenfield investments. The government will have to also act with due care to guide Slovakia through the current adverse economic climate. A further challenge is to avoid regional disparities and maintain a macroeconomic balance with careful fiscal planning and to continue to foster internal demand.

Entry to the Eurozone has protected Slovakia from currency risks in early 2009 experienced by many of its immediate neighbours and is further encouraging for investors. However, as a primarily export based economy, a prolonged downturn and weak demand from trading partners poses a significant risk. Slovakia is nevertheless reported to be better positioned than many other European countries to weather this current economic downturn.

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Chapter 3

Business Law

Introduction

The majority of laws relating to business activities were adopted in the early 1990s and were amended during recent years to harmonise with EU legislation. One of the fundamental laws in this area is the Civil Code, which provides the basic rules applying to the rights and obligations of individuals and legal entities ("legal persons"), ownership, co-ownership and various types of contracts. Business relationships are specifically governed by the Commercial Code.

Under the Commercial Code, business (entrepreneurial) activities are defined as being systematic activities conducted independently by an entrepreneur (either an individual or legal entity), in their own name and under their own responsibility, for the purpose of making a profit.

Slovak business companies, partnerships and co-operatives must be registered in the Commercial Register. The same applies to foreign persons engaged in regular entrepreneurial activities in Slovakia. The Commercial Code states that a foreign person is an individual domiciled abroad, or an entity whose seat is located outside Slovakia. An entity with its seat in Slovakia is considered to be a Slovak legal person.

Generally, foreigners may conduct business in Slovakia under the same conditions and to the same extent as Slovaks. Foreigners can therefore participate in the establishment of a Slovak legal entity and may participate in an existing Slovak legal entity as a partner, member or shareholder.

A foreigner can also establish a Slovak legal entity, or become the sole partner, member or shareholder of a Slovak legal entity, provided a sole founder or a sole partner, member or shareholder is admitted by law. Business activities conducted by foreign companies in Slovakia are usually carried out through a Slovak subsidiary (the forms of which are listed in this chapter), or through an enterprise or branch office of a foreign person located in Slovakia.

A foreign entity's right to engage in entrepreneurial activities in Slovakia is established on the day its enterprise or branch office is entered into the relevant Commercial Register.

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Types of Business Entities

The Commercial Code provides various options for the structure of business entities in Slovakia. These, all of which require registration, are:

- Joint-Stock Company
- Limited Liability Company
- General Partnership
- Limited Partnership
- Co-operative
- Enterprise or Branch Office of a foreign company
- European Company (or "SE", Societas Europaea)

With the exception of enterprises and branch offices, all of the above forms constitute Slovak legal entities.

Joint-Stock Company
(akciová spoločnosť - "a.s.")

- The registered capital of a joint-stock company is composed of a set number of shares of a certain nominal value. While shares may be 'partly paid' at issue there are strict time limits within which the full amount of capital must be paid.
- The company exists independently of its shareholders who are not liable for the debts and obligations of the company. The company is liable, with its total assets, for any breach of its obligations. The shareholders do not guarantee the obligations of the company. However, the shareholders are liable to the company to pay the full issue rate of the shares for which they subscribed. This means that if, for example, the business defaults while its shares have only been partly paid, then the shareholders are obligated to pay the balance of the capital outstanding.
- The company must include "akc. spol." or "a.s." in its business name.
- The company may exist as either a private or a public joint-stock company. If the company issues all or part of its shares through a public call for subscription of shares, or if its shares are traded by a stock exchange, it is a public joint-stock company.
- The company may be established by a sole founder (provided that the founder is a legal entity), or by two or more shareholders. If the company is established by two or more shareholders, a foundation agreement must be executed. If the company is established by a sole shareholder, a foundation deed must be executed rather than a foundation agreement. Both the foundation agreement and the foundation deed must be made in the form of a notarial deed on a legal act.
- A joint-stock company may be formed by a private agreement to subscribe for all shares or by a public call for subscription of shares. The company's registered capital in each case must be at least EUR 25,000. Prior to the incorporation of a joint-stock company, the entire registered capital must be subscribed and at least 30% of the

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monetary contributions fully paid. The nominal value of shares subscribed must be fully paid within the time period stipulated by the company's by-laws (articles of association), or within a maximum of one year from the company's registration in the Commercial Register.

- Shares may be issued in either registered or bearer form. Registered shares may be issued in documentary form with a share certificate or book-entered (dematerialised) form, whereas bearer shares can only be issued in book-entered (dematerialised) form. Both types are generally transferable. The articles of association may restrict (but not exclude) the transferability of shares.
- The joint-stock company may issue ordinary shares (including collective shares that substitute more shares of the same class having the same nominal value), voting and non-voting preference shares. The option to issue employee shares as a specific share type is no longer allowed. The nominal value of preference shares issued by a company cannot exceed 50% of its registered capital.
- Joint-stock companies must create a reserve fund at the time of incorporation with a minimum amount of 10% of the registered capital. This reserve fund has to be replenished each year with an amount specified in the articles of association, but subject to a minimum of 10% of the net reported profits, until such time as it reaches the amount specified in the articles of association (which must be at least 20% of the company's registered capital). The reserve fund may only be used to cover the company's losses and is not readily distributable to shareholders.
- The supreme body of a joint-stock company is the General Meeting of its shareholders. Each shareholder is entitled to attend general meetings, vote, ask for information and explanations concerning the dealings of the company and to make proposals. The powers of the general meeting include amendments to the articles of association, increase or reduction of the registered capital, appointment and removal of members of the Board of Directors and the Supervisory Board, approval of financial statements and profit distribution, decisions concerning the winding-up of the company and the changing of its corporate form.
- The Board of Directors is the statutory body of the company that manages the company's operations and acts on its behalf. The Board of Directors decides on all matters of the company, except for those reserved to the authority of the General Meeting or Supervisory Board by law or the articles of association and is responsible for ensuring proper accounting and reporting procedures. Members of the Board of Directors who breach their duties have joint and several liability to compensate damage caused to the company.
- Joint-stock companies must also have a Supervisory Board with at least three members, to supervise the exercise of powers by the Board of Directors and the conduct of business by the company.
- The annual financial statements must be audited by an authorised auditor and must be published.

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Limited Liability Company
(spoločnosť s ručením obmedzeným - "spol. s r. o." or "s. r. o.")

- This is the most common form of business entity in Slovakia. The registered capital of the company is made up of predetermined contributions of its members (shareholders).
- The company exists independently of its members. The company is liable for the breach of its obligations with its total assets. The liability of a shareholder for the obligations of the company is limited to the amount of the unpaid shareholder's contribution registered in the Commercial Register (e.g. the balance due in respect of a partly paid share).
- The company may be established either by a sole shareholder, a natural or legal person, or by two or more persons. However, the company may not have more than 50 shareholders. A company with a sole shareholder cannot be the sole founder or sole shareholder of another company. A natural person may not be the sole shareholder of more than three companies.
- The company's business name must include "spol. s r. o." or "s. r. o."
- The founders are obliged to execute articles of association specifying the company's activities, shareholders and their shares, managing directors and the details of its reserve fund.
- The company must have a minimum registered capital of EUR 5,000 with a minimum contribution by each founder of EUR 750. Each monetary contribution has to be paid up in at least 30% of the monetary contribution before filing the proposal for the company's registration in the Commercial Register. The balance of the unpaid capital must normally be fully paid within five years of the registration of the company, unless the memorandum of association stipulates a shorter period. The aggregate value of monetary and non-monetary contributions paid up before submitting the application for incorporation must be at least 50% of the minimum registered capital. If there is only one founder, the entire registered capital must be fully paid up before the company's registration.
- The company must create a reserve fund at the time and in the amount specified in the memorandum of association. Unless the reserve fund is established upon incorporation of the company, the company must create such a fund from the first reported net profits by transferring a minimum of 5% of the net profits to the reserve, subject to a maximum of 10% of the registered capital. The reserve fund must be replenished annually by the transfer of at least 5% of the net profits for the respective financial year, until it reaches the amount set out in the memorandum of association of the company, which has to be at least 10% of the company's registered capital. The reserve fund may be used only to cover the company's losses.
- The General Meeting of shareholders is the supreme body of the company. It is authorized to make all major decisions. It has to be held at least once a year.
- The General Meeting appoints one or more executives (managing directors) serving as the statutory body of the company.
- A Supervisory Board may be established, but is not mandatory for this type of company.

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- The size of the ownership interest (business interest) in the company determines the rights and duties of a shareholder and his participation in the company. The level of a shareholder's participation is generally determined as the ratio of the shareholder's capital contribution to the company against the total registered capital. Unless the memorandum of association provides otherwise, a shareholder is free to transfer his business interest to another existing shareholder by means of a written agreement, subject to the approval of the transfer by the General Meeting. The shareholding may be transferred to a third party who is not already an existing shareholder of the company, only if it is allowed by the memorandum of association (e.g. A, B and C each own all of the shares in XYZ spol. s r. o. Shareholder A may transfer his shares to B or C subject to the approval of the General Meeting. If however A wishes to transfer his shares to D, who is not an existing shareholder, then this can only be done if allowed in the memorandum of association).
- The company does not have to appoint an auditor to verify its balance sheet unless two or more of the following apply:
  a) the turnover in the previous year exceeded EUR 2 million (excluding VAT)
  b) the assets at the end of the previous year exceeded EUR 1 million, and/or
  c) the company had an average staff of more than 30 employees in the previous year.

General Partnership
(verejná obchodná spoločnosť - "ver. obch. spol." or "v.o.s.")

- A company in which at least two persons carry out business activities under a common business name and guarantee the liabilities of the company jointly and severally with their entire assets.
- Legal persons, as well as individuals, may be partners.
- The company is formed by the preparation of a memorandum of association specifying the seat and the business name of the partnership, the names and addresses of all the partners and the scope of activities of the business.
- The partnership must include the designation "ver. obch. spol." or "v.o.s." in its name, unless it includes the surname of at least one of its partners, in which case "a spol." is sufficient.
- The company does not have to create registered capital; however, a commitment to contribute capital may be agreed in the memorandum of association. Any contribution made to the general partnership becomes the property of the partnership.
- If not otherwise stated in the memorandum of association, each partner is entitled to act on behalf of the partnership.
- There is no legal requirement for an audit of the accounts.

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Limited Partnership
(komanditná spoločnosť - "kom. spol." or "k.s.")

- A limited partnership is a company, in which one or more partners guarantee the partnership's liabilities up to the amount of their unpaid contributions registered in the Commercial Register (limited partners) and one or more partners guarantee the partnership's liabilities with their entire property (general partners).
- A Limited Partnership must have, in addition to the limited partners, general partners with unlimited liability. The partners must complete a memorandum of association specifying the company's business activities, the partners, their capital contribution, and indicating which partners bear limited or general liability.
- The partnership must include the designation "kom. spol." or "k.s." in its business name. If the business name includes the name of a limited partner, he or she shall have unlimited liability for the partnership's obligations.
- A limited partner has to make a capital contribution to the partnership in the amount specified in the memorandum of association, but subject to a minimum of EUR 250. The contribution must be paid by the date specified in the memorandum of association, or without undue delay after incorporation of the company.
- There is no stipulated minimum capital for general partners.
- The statutory body of a limited partnership is its general partners, each of whom is entitled to act on behalf of the company individually, unless the memorandum of association specifies otherwise. Only general partners are authorised to participate in the management of the company's business.
- No audit is required.

Co-operative
(družstvo)

- A co-operative is formed by at least five members who are natural persons. However, it is perfectly acceptable for at least two legal entities to form a co-operative. The purpose of a co-operative is to undertake business activities or to ensure the economic and social or other benefit of its members. An example of social benefit would be where all of the owners or occupiers of flats in a building or group of buildings form a co-operative to deal with building maintenance, cleaning, letting of common space, etc.
- The co-operative is fully liable for its liabilities. Members do not, however, guarantee the obligations of the co-operative.
- The co-operative must include the designation "družstvo" in its business name.
- The co-operative must have a registered capital of at least EUR 1,250. To join the co-operative, new members may be required to pay a fee or make a capital contribution in accordance with the requirements of the articles of association. The outstanding amount of a member's contribution must be paid within three years, unless the articles of association provide otherwise.

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- A co-operative is established at a Members' Meeting which determines the amount of the registered basic capital, approves the articles of association and appoints the members of the Board of Directors (the statutory body of the co-operative) and the Supervisory Committee.
- The supreme body of a co-operative is the Members' Meeting. When the co-operative has fewer than 50 members, the articles of association may allow the powers of the Board of Directors and the Supervisory Committee to be vested to the Meeting of the Co-operative's Members.
- Any member may transfer his membership rights and duties to another member of the co-operative, unless such a transfer is excluded by the articles of association. Any agreement concerning the transfer of membership rights and duties to a third party is subject to the approval of the co-operative's Board of Directors.
- A non-distributable fund of at least 10% of the co-operative's registered capital must be established at its incorporation. This fund may not be distributed to the members during the existence of the co-operative. The fund must be replenished annually with at least 10% of the net profits achieved each year until the balance of the fund reaches 50% of the co-operative's registered basic capital. The fund exists to cover any losses which may arise in subsequent periods.
- A co-operative does not have to appoint an auditor to verify its balance sheet unless two or more of the following apply:
  a) the turnover in the previous year exceeded EUR 2 million (excluding VAT)
  b) the assets at the end of the previous year exceeded EUR 1 million, and/or
  c) the company had an average staff of more than 30 employees in the previous year.

Enterprise or Branch Office of a Foreign Person or Organisation
(podnik alebo organizačná zložka podniku zahraničnej osoby)

- Foreign persons (both natural and legal) may conduct business in Slovakia provided that they have their business or branch offices located in Slovakia registered in the relevant Slovak Commercial Register.
- The Commercial Registration must give details of the business activities of the company or the branch offices of foreign entities operating in Slovakia, the name and address of the office manager of the enterprise or branch and the seat of the enterprise or branch office, as well as certain other data relating to its foreign ownership. An enterprise/branch office of a foreign person is not regarded as a Slovak legal entity since it does not have legal capacity.
- The nominated branch office manager can be either a Slovak national or an expatriate, who, when appropriate, should have a valid temporary Slovak residence permit.
- Citizens of EU or OECD member states are not required to have such residence permits.
- There are no minimum capital requirements, nor is an audit required.

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European Company (or “SE”, Societas Europaea)

In Slovakia, the measures implemented by the European Company Act were adopted on 9 September 2004. The European Council Regulation came into force on 8 October 2004 and was directly applicable in all member states.

The European Company Act sets out rules in respect of, for example, the formation, registration and structure of a supranational corporate form – the European Company (or “SE”, Societas Europaea). An SE shall be treated as though it is a public limited liability company formed under the laws of the member state in which the registered office is situated, such as a joint stock company in Slovakia. The Act also incorporates the Employee Involvement Directive.

Some of the main features of the European Company Act are:

- the SE must have a minimum subscribed share capital of EUR 120,000, registration must be in the member state where the SE has its registered office; the registration procedures are subject to the laws of the member state in which the SE has its registered office, subject to the requirements of EU law
- protection of minority shareholders and creditors in the event of a transfer of the SE’s registered office to another member state
- includes provisions regarding the management of the SE, and
- provisions regarding the involvement of employees in the management of an SE.

The second part of the Act is dedicated to employment issues and thus incorporates the Employee Involvement Directive, the main feature of which is an employee participation in the management of an SE. This means that employees of SE situated in Slovakia have the right to be involved in its management. The Act also introduced provisions on employees' representative bodies and on protection of employees' interests in an SE.

These rules provide companies operating in more than one member state with an opportunity to establish a single company, subject to one set of management and reporting systems. The European Council Regulation does not deal with the tax treatment of SEs.

Trade Licenses

No entity or individual (resident or non-resident) may carry out any 'for profit' business activity on a regular basis without having the appropriate trade license (issued by the respective trade licensing office or by the special state authorities) required for a particular business activity.

Trades fall into two main categories, namely notifiable ("ohlasovacie živnosti") and concession trades ("koncesované živnosti") depending on the professional qualification requirements. Where a trade is notifiable, it must be registered with the relevant trade

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licensing office. If the stipulated conditions are fulfilled, the licensing office must issue a trade certificate within five working days after receiving a completed application. In the case of a concession, an application must be submitted to the trade licensing office responsible for the location of the proposed place of business. The office has 30 days to reply after receiving the completed application. Unlike the notifiable trades, the grant of a concession is at the discretion of the authority and there is no legal obligation to grant a concession even if all statutory requirements have been met.

The Commercial Register

All forms of business entities, including their branches and organisational units, must be registered in the Commercial Register. Registration of individual entrepreneurs is, in general, voluntary.

The Commercial Register is maintained by the courts. A business may only commence operations in Slovakia once the registration formalities have been completed.

The previous government made great efforts to make the business environment friendlier and major changes were introduced into the legal framework in order to make this possible.

The Commercial Register Act which took effect on 1 February 2004 introduced some major changes in the registration procedure:

- the Registration Court should complete the registration within five working days of the day of delivery of the application
- special forms must be used when filing applications for registration in the Commercial Register
- applications for registration have to be accompanied by the annexes listed in the relevant Decree of the Ministry of Justice.

Bankruptcy

The act on Bankruptcy and Restructuring, (the "Bankruptcy Act"), fully effective as of 1 January 2006, applies to the settlement of claims against a debtor who has gone bankrupt. The aim of bankruptcy or restructuring is to satisfy the claims of the creditors vis-a-vis the insolvent debtor on a proportional basis. The act brought many important changes, e.g., it stipulates the parties involved and increases their responsibility, reconciles conflicting provisions of international private and procedural law, regulates cross-border bankruptcies within the EU Member States or in relation with third countries, regulates the small-scale bankruptcy, etc.

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A debtor is in bankruptcy under the following conditions:

- when insolvent (the cash flow test), i.e. the debtor has more than one creditor and is unable to meet its financial obligations for more than 30 days from the date of their maturity. This applies whether the entrepreneur is an individual person or a legal entity.
- when its due liabilities exceed its assets (the balance sheet test), i.e. a debtor that is obliged to keep books under the Accounting Act, has more than one creditor and meets the balance sheet test.

Bankruptcy Proceedings

Bankruptcy proceedings commence with a petition for bankruptcy filed either by the debtor, their creditors, or the liquidator of the legal entity in question. In addition, there is specific legislation which may, in certain circumstances, entitle other persons to file for bankruptcy or require a statutory body of the debtor to file for bankruptcy.

The petition must be submitted to the court by the debtor within 30 days following their determination of insolvency. A creditor may file a petition after 30 days of the debtor's inability to meet its financial obligations.

The court will examine the submitted petition and if a debtor meets the above mentioned conditions, the court issues a resolution on the commencement of bankruptcy proceedings within 15 days from the service of petition. In addition, the court appoints a preliminary administrator whose role is to ascertain the debtor's assets and to review its books and records. Once a preliminary administrator has been appointed, the debtor may only dispose of assets with the consent of the administrator; anything done without such permission is null and void, i.e. the debtor may not do anything that would lead to a reduction of assets, but the debtor may carry on its normal business activities.

The court may decide, after the findings of the preliminary administrator have been submitted, to pass a resolution declaring bankruptcy or dismiss the case.

If all conditions for declaring bankruptcy have been met, the court will issue a resolution declaring bankruptcy and also appoint a bankruptcy administrator. From that moment, all creditors have 45 days to file their claims.

During the bankruptcy proceedings, the administrator carries out the administration of the debtor’s assets, converts the debtor’s assets (the bankruptcy estate) into cash and then distributes the collected cash amongst the creditors according to their statutory or contractual ranking and priority.

The main consequences of the bankruptcy resolution are:

- non-matured receivables and liabilities of the debtor become immediately due and payable
- all instructions, powers of attorney and outstanding proposals of the debtor for concluding contracts that have yet to be acted upon are cancelled and have no effect
- setting-off receivables due to the bankrupt debtor is prohibited

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- execution proceedings against the assets of the debtor are prohibited and if execution proceedings are in process they are suspended
- all acts of the debtor relating to its assets and undertakings are declared null and void
- a party entering into a contract with the debtor after the issue of the declaration of bankruptcy is entitled to repudiate it, unless they were aware of a declaration of bankruptcy over the debtor
- the right to act on behalf of the debtor in labour relations passes to the bankruptcy administrator
- civil and other proceedings are suspended if they relate to assets which have been included in the bankrupt estate.

The assets of the bankrupt party may be converted to cash either through public tender, sale by auction or direct sale. After the asset conversion procedures are terminated, the administrator will issue a schedule on the distribution of assets to creditors.

Secured creditors whose debts are secured by pledge or retention rights are entitled to have their claims satisfied out of the proceeds of their security. The secured assets are treated as being separate from the bankrupt estate, and the general order of priority for the repayment of creditors does not apply.

Certain claims defined by the Bankruptcy Act can be settled at any time during the bankruptcy proceedings (e.g., claims for the refund of an advance payment for the costs of the proceedings and for the fees of the preliminary bankruptcy administrator, claims for a separate settlement or claims that arose after the declaration of bankruptcy and that became due in the course of bankruptcy proceedings). Other claims may be satisfied only on the basis of distribution order.

Restructuring

The aim of restructuring is, to solve the debtor's insolvency and simultaneously to preserve the debtor's business as a going concern. In case of threatening or real bankruptcy, a debtor is entitled to appoint a bankruptcy administrator to prepare a restructuring opinion. The administrator may recommend the restructuring of the debtor's business under the following conditions:

- the debtor carries on business activities
- the debtor is in bankruptcy or bankruptcy is imminent
- it may be expected that a significant part of the debtor's enterprise could be preserved, and
- in the case of approval of restructuring, it is expected that the creditor's claims would be satisfied to a greater extent than in bankruptcy.

Restructuring proceedings commence with a petition for restructuring filed either by the debtor or by a creditor with the debtor's consent. The court will examine the petition to review whether it meets all requirements and may issue a resolution on the commencement

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of restructuring proceedings. Afterwards, no later than 30 days from the date of the commencement of restructuring proceedings and after examination of all the supporting documents, the court may issue a restructuring resolution or dismiss the case.

After being acknowledged by the court, the restructuring plan becomes binding upon all parties to the plan. The plan regulates the establishment, change or expiry of rights and obligations of the persons listed therein, scope and methods of satisfaction of the parties to the plan and it must ensure the highest possible degree of satisfaction of the debtor's creditors.

Because bankruptcy and restructuring may entail very specific aspects in each and every individual case, robust advice is strongly recommended.

Accounting, Financial Statements and Audit Requirements

Accounting regulatory framework

Slovak accounting standards are governed by the Act on Accounting, which regulates general accounting principles, maintaining and closing the books, asset and liability valuation, profit and loss calculation, financial statements formats and auditing requirements. There are also requirements contained in the Commercial Code and decrees issued by the Ministry of Finance. As of 2005, statutory consolidation procedures were abolished and all consolidated financial statements should be prepared exclusively according to IFRS as adopted by the European Union ("EU-IFRS").

Additionally, starting from 2006 all banks, insurance companies, listed companies and certain other large companies are obliged or can select to prepare their individual financial statements according to EU-IFRS (see section Preparation and submission of individual financial statements below for more details).

As of 1 January 2009 Slovakia joined the Eurozone and the euro became the statutory reporting currency of Slovak companies.

Chart of accounts

There are separate statutory charts of accounts and accounting procedures for:

- entrepreneurs
- banks
- insurance companies

There are also separate charts for non-profit organisations, municipalities, political parties, social insurance organisations, the EXIM (Export-Import) Bank, etc.

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The chart of accounts for entrepreneurs consists of the following accounting classes:

0. Non-current assets
1. Inventory
2. Financial accounts
3. Debtors and creditors
4. Capital accounts and non-current liabilities
5. Expenses accounts
6. Income
7. Closing accounts and off-balance sheet

A company is required to design its own chart of accounts, which must contain the prescribed accounts and additionally may contain other accounts or sub-accounts necessary for the recording of all accounting transactions and for the preparation of the financial statements.

The statutory chart of accounts is not mandatory for those companies which prepare their financial statements according to EU-IFRS starting from 2006 (see section Preparation and submission of individual financial statements below for more details).

Accounting records

Slovak bookkeeping rules do not differ very much from those commonly employed worldwide (entries are made on a double-entry basis, chronologically and mainly on a historic cost basis and have to be documented). All accounting books and financial statements must be prepared and maintained in Slovak and in Slovak currency (except where companies prepare their financial statements according to EU-IFRS and have a different functional currency).

All source documents, accounting books, schedule of depreciation and amortisation, protocols of physical count, confirmation procedures etc. must, as a rule, be retained for a period of five years; however, the annual financial statements and annual report must be kept for ten years.

Companies may use any type of processing method, as long as they provide all the information needed to prepare statutory financial statements. If the company maintains accounting records in electronic form, it is required to convert the accounting records into a legible form.

Accounting period

Starting from 2004, companies may select a 12 month accounting period that may be different from the calendar year. A notice to tax authorities at least 15 days before the intended change of the accounting period or within 30 days from the date of establishment of the company is required.

Reconciliation procedures

A company must reconcile cash on hand at least four times during the accounting period. Physical stocktaking of fixed assets must be performed at least every two years.

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A physical inventory count must be performed at least once a year. Closing balances outstanding on all other accounts must also be reconciled and documented (balances of receivables and payables can be agreed directly with contractors).

Summary of Slovak Accounting Principles

Slovak accounting principles are gradually converging with IFRS, although some differences remain. When valuing assets and liabilities and preparing the income statement, the following major principles apply:

- assumption of the going concern basis
- use of accruals and matching concepts
- generally, prudent valuation of each asset item takes place on a cost basis
  - fixed assets are valued at acquisition cost, net of depreciation
  - raw materials and merchandise, finished products and work in progress are valued at the lower of cost or net realisable value
  - cost of inventories may be established either on a specific identification, weighted average or FIFO basis
  - certain financial investments can be valued based on the equity method
- value adjustments should be made for impaired fixed assets, financial investments, obsolete and slow-moving inventory and doubtful receivables
- valuation of creditors and debtors at their nominal amount; if denominated in foreign currency they need to be recalculated into EUR in accordance with the exchange rate published by the European Central Bank (ECB) as of the date of accounting transaction and as at the balance sheet date. Non-current receivables should be discounted to net present value;
- provisions should be made for certain or probable future liabilities (being in principle an obligation resulting from past events), when the amount can be reliably estimated
- consistency between accounting periods. Full disclosure and retrospective correction of significant changes in accounting policies and significant errors directly through equity (insignificant items can be recognised in the current year income statement).

Compared to accounting standards commonly used elsewhere, the Slovak GAAP offers similar possibilities for creating provisions for losses and costs, as well as writing down the value of inventory or receivables. However, accruals and provisions, although justified from an economic point of view, and obligatory according to accounting standards, may not necessarily be fully tax-deductible.

From 2004, assets leased under finance lease must be accounted for and depreciated by the lessee. Previously the leased asset was depreciated by the lessor (based on the legal ownership). The result is therefore an approximation of the IFRS concerning the treatment of finance leases with certain deviations (e.g., the definition of a finance lease, which has to have a purchase option under the Slovak GAAP). Lease contracts signed prior to 1 January 2004 should, however, be recorded according to the previous rules.

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Legal reserve fund

A company, based on Slovak commercial law, is obliged to create a legal reserve fund. The rules for creation of legal reserve fund are different for Limited Liability Companies and for Join stock companies.

Limited Liability Company

The company has to create a legal reserve fund based on the articles of incorporation of the company. If the company does not create a legal reserve fund upon incorporation (not mandatory upon incorporation), it has the obligation to create a legal reserve fund amounting to 5% of the annual profit. Such creation has to be performed annually until the legal reserve fund reaches 10% of the share capital. However the statutes of the company may, require turther additions to the legal fund.

Join stock company

The company has to create a legal reserve fund in the amount equal to 10% of the share capital (mandatory upon incorporation). Additionally, this fund has to be created annually in the amount equal to 10% of the annual profit until the legal reserve fund reaches 20% of the share capital. However the statutes of the company may require turther additions to the legal fund.

The legal reserve fund is not distributable to shareholders by way of dividends. As for other business forms, the legal reserve fund exists solely to cover possible future losses.

Preparation and submission of individual financial statements

Financial statements must contain the balance sheet, income statement and notes to the financial statements (including the statement of changes in equity and cash flow statement). The balance sheet and income statement, which accompany the tax return, must be prepared on special forms, and the notes must contain information as specified by the Ministry of Finance.

Starting from 2006, all companies meeting any two of three size criteria for two consecutive accounting periods (whose total assets and/or turnover exceed EUR 166 million and/or whose average number of employees exceeds 2,000), all banks, insurance companies and certain other companies have to prepare individual financial statements in accordance with EU-IFRS. Additionally, certain companies, such as listed companies and security traders can select to prepare individual financial statements in accordance with EU-IFRS. There are two ways of determining the statutory tax base from IFRS financial statements

- based on the method designed by the Ministry of Finance stated in the decree of the Ministry of Finance (currently being tested in practice) or

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- based on the profit/loss reported according to the Slovak accounting regulations (to use this method the company is obliged to keep records also according to the Slovak accounting regulations).

The year-end financial statements must be submitted together with the tax return to the tax office within three months after the chosen year end. With the prior permission of the tax office, this deadline can be postponed by a maximum of an additional three months.

Financial statements are filed with the tax office twice - the first time in support of the tax return, and the second time after approval by the general shareholders' meeting which is assumed to be held within six months after the balance sheet date. It therefore follows that there can be changes to the financial statements between the date of their submission to the tax office (with the tax return) and the date that they are approved by the shareholders.

Financial statements (and the annual report) must be filed with the Commercial Register within 30 days of the date of approval by the shareholders' meeting.

Annual report

Companies that must have their financial statements audited (by an independent auditor) must prepare an annual report containing the financial statements for the accounting period and the auditor's report. Other information required by law is: financial position of the company over at least two preceding accounting periods, important events after balance sheet date, expected future development of the company's activities, research and development expenditures, acquisition of own shares and shares of the parent company, proposals for the distribution of profit (settlement of losses), etc.

An accounting entity that has issued securities that were permitted to be traded on a regulated market is required to disclose in its annual report a corporate governance statement as a specific section of the annual report, which contains for example a reference to the corporate governance code, any significant information about corporate governance practices, the structure of share capital, any restrictions on the transferability of securities, etc.

Consolidated financial statements

Consolidated financial statements had to be prepared in accordance with Slovak accounting principles only up to 31 December 2004. Starting from 2005, all consolidated financial statements should be prepared according to EU-IFRS, while those companies whose parent companies prepare consolidated financial statements under EU legislation are exempt from this requirement. However this exemption does not relate to those companies, which are legally required to prepare their individual financial statements according to EU-IFRS (see above). The exemption does not apply to a parent accounting

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entity that is at the same time a subsidiary accounting entity and has issued securities that were permitted to be traded on a regulated market of a member state or a state of the European Economic Area.

Companies must prepare consolidated financial statements only if the group exceeds two of the following three criteria (financial statements of all subsidiaries, joint ventures and associates are aggregated at their full amounts):

- total assets of the consolidated group exceed EUR 17 million (total assets defined as net amounts after adjustments such as accumulated depreciation and value adjustments)
- net turnover of the consolidated group exceeds EUR 34 million (net turnover defined as revenue from the sale of products, goods and provision of services)
- average number of employees exceeds 250 during the accounting period.

An obligation to prepare consolidated financial statements has also a parent accounting entity that has issued securities that were permitted to be traded on a regulated market of a member state or a state of the European Economic Area, or if any of its subsidiary accounting entities has issued securities that were permitted to be traded on a regulated market of a member state or a state of the European Economic Area. The exemption due to size criteria does not apply for preparation of consolidated financial statements in this case.

All consolidated financial statements must be audited. A parent company is required to prepare a consolidated annual report. Consolidated annual reports must be prepared using the same policies as for individual annual reports. The consolidated and individual annual reports can be combined in one annual report.

Audit requirements

All consolidated financial statements must be audited. Additionally, all companies preparing their individual financial statements according to EU-IFRS and all joint-stock companies must have these financial statements audited. This requirement also applies to other companies (e. g. limited liability companies, companies that are required to create share capital or a cooperative) if during the preceding accounting period two of the following three criteria apply:

- total assets of the company exceed EUR 1 million (total assets defined as gross amounts before adjustments such as accumulated depreciation and value adjustments)
- net turnover of the company exceeds EUR 2 million (net turnover defined as revenue from the sale of products, goods and provision of services)
- average number of employees exceeds 30 during the accounting period.

Audits are intended to verify the consistency of the financial statements with the Slovak accounting principles and other legal provisions, as well as to ensure that the financial

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statements give a true and fair view of the financial position of the company and the results of its operations. An audit includes an assessment of the accounting principles used and significant estimates made by the management, as well as an evaluation of the overall financial statement presentation.

All facts which might adversely affect the financial standing of the company, threats to its future activities including reservations about the going concern principle, and infringements of law must be duly reported.

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Chapter 4

Taxation of Businesses

General

The Slovak tax system comprises the following taxes:

- Income taxes (personal income tax, corporate income tax)
- value added tax (VAT)
- excise duties
- real estate tax
- motor vehicles tax
- municipal taxes.

Inheritance and gift tax was abolished with effect from 1 January 2004. Real estate transfer tax was abolished with effect from 1 January 2005. Road tax was replaced by motor vehicle tax with effect from 1 January 2005.

Residency

Legal entities that are seated in Slovakia or whose place of effective management is seated in Slovakia are generally regarded as tax resident and liable to pay Slovak corporate income tax.

For residency of individuals, see Chapter 5.

Registration

Under the Act on Administration of Taxes, a taxpayer should register with the tax authorities within 30 days after obtaining permission to conduct business in Slovakia. Further, a taxpayer should notify the tax authorities of changes in registration within 15 days following the day when such changes arise. A taxpayer is also obliged to notify the tax authorities within 30 days of earning first taxable income.

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Corporate Income Tax

Corporate income tax is levied on legal entities and on entities not qualifying as individuals when their seat or their place of effective management is located in Slovakia. They are then liable to pay tax on income derived from Slovak sources and also on income derived from sources abroad (the place of effective management is specified as the place where managerial and business decisions of statutory and supervisory bodies of such an entity are adopted).

Other legal entities are liable to pay Slovak corporate income tax only on income derived from Slovak sources.

Tax base and rate

Corporate income tax is computed by reference to the "tax base". The tax base is generally gross income of the entity less related expenses, modified by a number of adjusting items.

The general tax rate is 19% of the tax base.

Examples of income, not subject to tax

- shares in profit after tax, e.g., in the form of dividends paid to shareholders who participate on the share capital of the entity distributing dividends from profit after tax (unless the distributed profit was generated prior to 1 January 2004)
- dividends paid after 1 April 2004 by a Slovak subsidiary to an EU Parent Company (as well as from an EU Subsidiary to a Slovak Parent company) even if such dividends relate to profits earned before 1 January 2004; the receiving (parent) company needs to directly possess a holding of at least 25% of capital at the time of distribution
- income received from inheritance or donations, and
- payments related to liquidation surpluses and settlement amounts to which the shareholders became entitled from 1 January 2004.

Tax deductible and non-deductible expenses

As a general rule, expenses for generating, ensuring and maintaining taxable income booked in the records of the taxpayer are tax deductible, unless they are specifically listed as tax non-deductible items (see following examples). Documentation should be kept on file to support deductibility.

Certain expenses, e.g., contractual penalties, have to be paid (i.e. not only accrued) in order to qualify as tax deductible costs. Correspondingly, a taxpayer receiving such payments should tax the income in the tax period when the invoiced amount is received.

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Examples of tax deductible items:

- tax depreciation costs
- tax residual value of depreciable assets sold
- obligatory social security contributions paid by an employer
- expenses incurred for the provision of health and social facilities for employees
- operational expenses of facilities used for protecting the environment
- taxes and fees, other than those listed as non-deductible items (see below)
- expenses incurred by the founder of a permanent establishment (PE) for the purpose of this PE, including management and administration expenses, regardless of the place where they were incurred, provided specific conditions in the Act are fulfilled
- advertising costs, with the exception of representation and high value promotional expenses (see below). Advertising costs are costs incurred for the advertisement of the taxpayer's business activities, advertisement of goods, services, immovable property, trade name, trade mark, trade labeling of products, and other rights and liabilities related to the taxpayer's activities carried out with the intention to generate, maintain or increase his income
- interest paid on credits and loans
- specific types of reserves and provisions, e.g. reserves created for supplies and services not yet charged; reserves for the audit of financial statements and preparation of tax return; and certain bad debt provisions (subject to limitations). The rules for creation and release of reserves and provisions are regulated directly by the Income Tax Act.

Examples of tax non-deductible items:

- acquisition costs of fixed assets
- penalties and fines other than contractual (e.g. penalties/fines imposed by state or municipal authorities)
- accounting depreciation costs, which exceed tax depreciation costs
- individual and corporate income tax and taxes paid on behalf of another taxpayer
- expenses incurred in providing proper working, social and health care conditions for employees exceeding limits set by law
- expenses for business trips above the allowable limit
- expenses for the generation of tax-free income
- shortages and damages exceeding the compensation received (shortages and damages qualify in certain cases as a tax deductible expense)
- representation expenses (with the exception of promotional items with a purchase price not exceeding EUR 16.60 per item, which are marked by the business name or a registered trademark of the taxpayer)
- losses derived from the sale of receivables.

Unrealized foreign exchange losses and gains from receivables and liabilities can be excluded from the tax base provided the appropriate decision has been made and notification filed with the respective tax authority within the time limits specified by law.

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Tax period/ Tax return filing

The tax period is usually a calendar year. However, it is possible for companies (not individuals) to notify the tax authorities that a tax payer will use an accounting period that is not identical to a calendar year, i.e. a period of 12 consecutive calendar months (a so-called financial year). Such an accounting period then also becomes the tax period.

A tax return should be filed with the respective Tax Authority within three months following the end of the tax period. It is possible to apply for an extension of the filing period but this is at the discretion of the Tax Authority. The application for the extension to submit the tax return should be filed no later than 15 days before the statutory filing deadline.

There is no group taxation in Slovakia. All entities are taxed separately.

There is a special tax treatment for partnerships which are in principle treated as wholly transparent (general partnerships) or partially transparent (limited partnerships).

Tax losses

- A tax loss incurred prior to a year in which a tax profit arises can be carried forward over five consecutive years starting with the first tax profit period. In contrast to rules which applied prior to 1 January 2004, the tax loss does not have to be carried forward in equal portions nor does a portion of the carried forward loss have to be reinvested in fixed assets.
- A company wound up without liquidation (e.g., on a merger), is allowed to transfer the right to carry forward its tax losses to its legal successor to set off against subsequent taxable profits. The legal successor may deduct the tax loss of the dissolved legal entity as long as the dissolved entity and its legal successor are liable to corporate income tax and at the same time as long as the purpose of the restructuring was not solely to decrease or avoid the tax liability.
- Each year's tax loss should be considered separately and can be carried forward over five consecutive tax periods.

Depreciation rates

Depreciation is a tax deductible expense and is calculated for tax purposes at statutory rates. Both straight-line and accelerated methods of depreciation are allowed (Tables 10 and 11 overleaf). Companies may have different depreciation rates for accounting and tax purposes. Intangible assets and low value fixed assets (if depreciated and not directly expensed) must be depreciated in line with the accounting depreciation. A taxpayer may depreciate assets which it leases under a financial lease as defined by tax legislation. In such a case the leased asset may not be depreciated by the lessor. The ieased asset may not be depreciated by the lessor.

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Depreciation: Straight-line Method

TABLE 10

Type of Assets	Useful life	Annual deprecia-tion
Computers; mechanical tools; cars; printers	4 years	1/4
Some machinery and equipment used for construction and roads, machinery for agriculture, furniture, etc.; assets not allocated to a specific group	6 years	1/6
Some machinery and equipment; special technical equipment; cooling equipment; stationary metal structures	12 years	1/12
Pipelines; buildings; electric and telecommunications networks	20 years	1/20

Source: Daňové riaditeľstvo SR (Tax Directorate of the Slovak Republic)

Depreciation: Accelerated Method

TABLE 11

Type of Assets	First year	Subsequent years	For increased residual value
Computers; some mechanical tools; cars; printers	4	5	4
Some machinery and equipment used for construction and roads; machinery for agriculture; furniture, etc.; assets not allocated to a specific group	6	7	6
Some machinery and equipment; special technical equipment; cooling equipment; stationary metal structures	12	13	12
Pipelines; buildings; electric and telecommunications networks	20	21	20

Depreciation costs are calculated as follows:
First year: acquisition price/coefficient for the first year
Subsequent years: 2 x residual value/coefficient for the subsequent years decreased by number representing of period during which the asset has been depreciated

Source: Daňové riaditeľstvo SR (Tax Directorate of the Slovak Republic)

Thin capitalisation rules

From 1 January 2010 thin capitalization rules, which were abolished by the 2004 tax reform, should enter into force again. The new thin capitalization rules are as follows:

- The new thin capitalization rules apply to credits and loans provided between related parties (domestic or foreign). Parties to a credit or loan arrangement should be treated

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as related if the provider of the credit or the loan holds at least 25% direct or indirect participation in the share capital of the loan recipient or vice versa.

- The interest paid on the amount by which the average balance of credits and loans provided by the related parties during the taxable period exceeds 6-times the equity reported as at the end of the preceding taxable period will not qualify as a tax deductible item.
- These rules will apply as long as the average balance of credits and loans exceeds during the respective taxable period the amount of EUR 3,319,400.
- The average balance is to be calculated either on a monthly or on a quarterly basis

However, according to a draft amendment to the Slovak Income Tax Act, the above thin capitalization rules may be abolished before they enter into force. The outcome of the legislation process was not yet known as at the date of publication hereof.

Permanent Establishments

The phrase "permanent establishment" ("PE") is a term used in tax legislation to define a fixed place of business, which represents a taxable entity in the territory in which it is located in Slovakia. A PE can be either a branch that is registered in the Commercial Register, or an unregistered unit that has no legal status ("deemed PE"). Thus, for instance, a person who acts on behalf of a foreign company and repeatedly enters into agreements on its behalf, under a power of attorney, is also considered to create a PE of the foreign company.

Under present law, a PE is constituted when one-off services have been performed in the territory of Slovakia for more than 6 months within a period of 12 consecutive calendar months. In other cases, a PE is constituted if a fixed place through which the activities of the foreign entity are carried out in Slovakia is available. The parent company can register the PE immediately, but in all cases the PE must be registered within 30 days of the date when the PE was constituted.

Whether or not a PE is created is subject also to the provisions of applicable double tax treaties.

Generally speaking, all employees assigned to a PE are subject to Slovak personal income tax (see Chapter 5).

Withholding Taxes

Withholding tax is deducted from certain types of income derived in the territory of Slovakia by both residents and non-residents at a single rate of 19%. Such income comprises mainly interest and revenues derived from participation certificates, from certificates of deposit, and from deposit letters.

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Withholding tax also applies to dividends paid out of profits generated before 2004, subject to further exemptions in accordance with the Parent/Subsidiary Directive.

In the case of non-residents, withholding tax is also charged on royalties, subject to exemptions under the EU Interest and Royalty Directive if the payment is to an EU associated company. According to the EU Interest and Royalties Directive, interest and royalty payments to EU associated companies are exempt from withholding tax under certain conditions.

The rate of withholding tax can be reduced in accordance with applicable double taxation treaties.

Slovak entities are also obliged to deduct a withholding tax of 19% from payments for business, advisory and consulting services rendered in Slovakia if they are made to a non-treaty country before a PE is constituted (the first 183 days of activity in Slovakia). If the supplier comes from a treaty country, and it is likely that a PE will not be constituted, then no withholding tax applies.

In addition to withholding tax, Slovakia also levies a "security tax" on payments to PEs.

If a PE exists or is likely to be established, a Slovak entity making payments to the PE must withhold 19% security tax from all payments. With effect from 1 January 2007, the obligation to withhold security tax does not apply to payments in respect of a Slovak PE of an entity based in the EU, which is taxable on its worldwide income in the respective EU country and is not considered a tax resident in Slovakia. The security tax represents an advance payment of the corporate income tax liability of the PE, which is then credited against its actual tax liability. It is possible to agree to cancel or reduce this 19% advance payment on the basis of specific approval from the relevant tax authority.

The taxpayer is obliged to remit withholding taxes within 15 days of the following month and to notify the tax authority regarding the amount of payment.

Double Taxation Avoidance Treaties

Double taxation avoidance treaties concluded between Slovakia and Western countries in general follow the OECD Model Treaty. Reduced withholding tax rates under treaties are shown in the appendix.

Transfer Pricing

Slovak tax law contains transfer pricing rules which are largely based on OECD principles (especially OECD Transfer Pricing Guidelines), which permit the authorities to adjust prices charged between foreign related parties that are not in accordance with the arm's length principle (fair market value). Pricing methods (comparable uncontrolled price

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method, resale method and cost plus method) and profit methods (profit split method and transactional net margin method) are allowed on this basis. The transfer pricing rules for transactions between domestic entities have been abolished.

With effect from 1 January 2009 special obligation to keep documentation on the transfer pricing method used between foreign related parties applies. The rules for drafting and keeping the required transfer pricing documentation are issued by the Ministry of Finance by means of secondary legislation.

Tax Holiday Legislation and Investment Incentives

Slovakia has historically had extensive tax holiday legislation which gave automatic entitlement to a tax relief if certain conditions were met, and subsequently were subject to compliance with EU State Aid rules. However the availability and entitlement to such tax holidays has been significantly reduced. A new Investment Incentive Act, effective as of 1 January 2008 has introduced new conditions.

Investment incentives

Under the new Act on Investment Aid investors can apply for the following investment incentives:

- cash grant for the procurement of fixed assets
- corporate tax relief
- cash grants for new jobs
- transfer of real property at a price lower than the market value.

The new Act on Investment Aid formalizes the procedures applying to investment incentives. The new legislation is aimed to boost investment in the regions with high unemployment rates and will particularly support investments in technological and strategic centers. It also supports investments in the tourism sector. Conditions on provision of investment aid vary depending on type of the investment, location and other parameters of the project.

Investment incentives granted by the Slovak Government are considered state aid and should therefore be fully compatible with the European Union State Aid regulations.

It should be stressed that:

- There are many detailed provisions and exceptions, which need to be taken into account when applying for investment incentives.
- For a temporary period of 1 April 2009 to 31 December 2010 acquisition of assets from related parties form part of the eligible investment expenditure, which serve as a basis for the investment incentive amount. The investment incentive amount is determined on the basis of a percentage of the eligible investment expenditure.

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- It is crucial that one cannot start an investment project before receipt of a provisional approval to be issued by the Slovak Ministry of Economy.
- There is no automatic entitlement to (tax) incentives or other grants under this legislation in Slovakia:
  - all incentives need to be agreed with the Slovak Government and have to be formally applied for and approved by the Government; and
  - all incentives are subject to limits set by the EU state aid law and in specific cases must be notified to the European Commission.

Different conditions are applicable to investments in the manufacturing industry, technology and strategic investment centers and the tourism sector. For example, an investor in the manufacturing industry, submitting the investment project before 2011, can qualify only if he invests at least TEUR 13,278 in a region where the unemployment rate is lower than the average unemployment rate in Slovakia. If the unemployment rate in the respective region is higher than the average unemployment rate in Slovakia, at least TEUR 6,638.78 should be invested.

In 2009 Slovakia introduced a specific Investment Incentive Act for Research and Development Centres. The aid will be provided to projects which deal with fundamental, industrial and experimental research. One can qualify for cash grants and tax relief.

Further, investors may apply for subsidies under the EU Structural Fund programs; however, only a few specific schemes are applicable as most funds are destined for local, regional and central authorities in order to improve infrastructure, education etc.

Indirect Taxes

Value Added Tax (VAT)

The Slovak VAT Act complies with Directive 2006/112/EC. From Slovakia's accession to the European Union on 1 May 2004, the Slovak VAT Act has complied with the EU 6th Directive.

Registration

Slovak taxable entities, with their seat, place of business or establishment in Slovakia, must register for VAT if their cumulative turnover within the previous maximum of twelve calendar months exceeded EUR 49,790 (effective from 1 July 2009; the threshold was EUR 35,000 up to 30 June 2009).

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Registration for VAT purposes is also obligatory for:

- a legal entity or individual, which acquires a business or part of a business of a VAT payer through a contract of sale of business
- a foreign entity performing economic activities in Slovakia that are subject to VAT
- a foreign entity which makes distance sales in Slovakia to persons who are not registered for Slovak VAT purposes, and the total value of the supplied goods exceeded EUR 35,000
- a foreign entity, which makes distance sales of goods to individuals for personal consumption, and these goods are subject to excise duties
- an entity that is not registered for VAT purposes, but acquires goods from another EU Member State at a value exceeding EUR 13,941.45 in a calendar year.

Voluntary registration is also possible; a request for VAT registration should be filed with the tax authorities.

It is currently not possible for group companies to register as a single VAT entity (VAT grouping), but this will be allowed with effect from 1 January 2010 if certain conditions are met.

De-registration

De-registration for VAT can be applied for as a result of the following situations:

- a taxpayer who has ceased to perform economic activities that are subject to VAT
- a taxpayer whose taxable turnover did not reach 49,790 (effective from 1 July 2009) in the last twelve calendar months
- a foreign entity making distance sales if the total value of the supplied goods did not reach EUR 35,000 in the relevant calendar year and also did not reach EUR 35,000 in the previous calendar year
- an entity, registered for the acquisition of goods from another EU Member State, which did not acquire goods from another EU Member State at a total value of EUR 13,941.45 in the relevant calendar year and also did not reach that threshold in the previous calendar year.

Rates

The standard VAT rate is 19%. A 10% reduced VAT rate has been introduced for medicaments and certain other medical/pharmaceutical products, books and music records (should certain conditions be met).

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Recovery

A taxpayer is entitled to deduct VAT from transactions used by the taxpayer for the supply of goods and services as a VAT payer. In general, the taxpayer can recover the VAT provided, provided that:

- a VAT liability arose to the supplier from the supply of goods or services, in the case of import of goods the import VAT was paid
- the taxpayer has a valid VAT document (invoice).

The following specific situations should be noted:

- VAT liable supplies with no entitlement to VAT recovery: for example this applies to a selection of supplies, including acquisition and rental of personal cars, catering
- exemption from VAT with entitlement to VAT recovery: this applies to export of goods, supply of goods to another EU Member State and certain services, the transfer or use of rights abroad, international transportation
- exemption from VAT with no entitlement to VAT recovery: this applies to postal services, broadcasting and television, financial and insurance services, education and science, health care services, lotteries and other similar games, transfer and leasing of real estate (in the event an option to tax is not applied), the sale of a business under certain conditions. The specification of such services is in accordance with the 6th EU Directive.

Refunds

Taxpayers with a VAT registration in Slovakia

The excess input VAT claim should be carried forward and offset against future VAT liability in the following taxable period. The excess input VAT claim which could not be offset against the VAT liability declared in the following taxable period should be refunded to the VAT payer within 30 days after the VAT return for the following period was filed (i.e. excess input VAT can in Slovakia be recovered within approximately three months if a tax audit did not extend this period).

According to the changes in the Slovak VAT Act effective from 1 April 2009, alternatively, an excess deduction of the VAT claim declared may be refunded to taxpayers in an accelerated refund procedure, i.e. within 30 days of the deadline for filing the VAT return for the respective VAT period if specific conditions are met.

Foreign persons

A foreign person who is registered for VAT abroad, or is registered as a payer of a similar general consumption tax abroad, is entitled to claim a refund of Slovak VAT paid upon the

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delivery of certain goods or the provision of certain services, if the following conditions are met:

- The person did not have any seat, a place of business, a fixed establishment or residence in Slovakia during the period for which the VAT refund request was filed.
- During the period for which they filed a VAT refund request, they did not supply any goods or provide any services in Slovakia (except certain specifically stated supplies).

The VAT refund can be claimed by submitting a request to the Tax Office Bratislava I. The minimum amount of VAT which can be claimed is EUR 25 in one calendar year and the request must be submitted within six months of the end of the relevant calendar year. The request can also be submitted before the end of the calendar year if the request covers at least three consecutive months and the VAT amount exceeds EUR 200.

The request for a VAT refund must be filed using a form which is available from the tax authorities. If the tax authorities approve the request, the VAT amount should be paid to the foreign company within six months of the day of filing the request.

Slovak VAT should be refunded in this manner to all VAT payers from EU countries. It is also refunded to those from non-EU countries based on reciprocity.

Individuals

An individual with no residence permit in any EU country exporting goods (except fuel for personal purposes) from EU countries can file a request for a VAT refund. Individuals can submit a request for a VAT refund if:

- the amount of the goods exported outside the EU stated in the purchase document exceeds EUR 175
- they posses a document on purchase of goods issued by taxpayer
- export of goods is carried out within three months of the day the goods are purchased, and
- the Customs Office of any EU country certifies the export of goods.

Customs Duties

Since 1 May 2004, rates are based on the EU customs tariffs and depend on the classification of goods and their origin. Customs duty is normally paid within 10 days from the date of importation of goods. Normally, payments cannot be deferred for more than 30 days.

Excise Duties

Excise duties are governed by six separate acts which set out the conditions under which excise duty is levied on mineral oils, pure alcohol and spirits, wine, beer, tobacco products and electricity, coal and natural gas (referred to as "excisable products"). The tax treatment is fully compliant with the EU Directives. Taxable persons are all legal entities

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and natural persons who produce these excisable products in Slovakia or to whom excisable products are released in Slovakia. Excise duties are stipulated in accordance with the EU legislation as a set amount per unit of measure for each group of products, except for cigarettes, where the tax rate also contains an ad valorem component.

Rates *(See page 59 and 60, Table 12)*

Administration

Excise duties are administered by a relevant customs office. Monthly excise taxes returns have to be filed within 25 days of the end of the taxable period and excise tax liabilities must be paid within this period. The taxable period is a calendar month.

Motor Vehicle Tax

The Motor Vehicle Tax is imposed on vehicles used for business purposes only. The taxable base is determined as a combination of vehicle weight and number of axles for lorries and trailers and for personal cars the tax depends on the engine volume in cubic centimeters. It should be noted that if an employee uses his private vehicle for business purposes of his/her employer, the employer is obliged to pay the attributable motor vehicle tax for the month in which the vehicle was used for such a purpose.

Rates

Tax rates are set by the regional administrations. The law stipulates minimum rates for lorries and trailers.

Real Estate Transfer Tax

The tax was abolished with effect from 1 January 2005.

Municipal Taxes

Real Estate Tax

Real estate tax is a municipal tax paid by owners of buildings (including private and weekend houses), apartments and land, or by tenants of land, registered with the cadastral register, and is determined by the size, location and the type of buildings, flats and land.

- The real estate tax on buildings is computed as the number of square meters constructed, multiplied by the respective tax rate. The base tax rate is EUR 0.033 per square meter but the Municipal Authority may increase or decrease the rate and determine different rates for various types of buildings; the highest rate may not be higher than 40 times the lowest rate. In addition, the Municipality may impose a surcharge of up to EUR 0.33 per each additional floor.

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- Owners of land, or in specific cases tenants, must pay real estate tax in respect of the land. The tax base of the land is the product of the area of the land and its official value per square meter. The base tax rate is 0.25% but the Municipal Authority may increase or decrease the rate and determine different rates for various types of land; the highest rate may not be higher than 20 times the lowest rate. For land where a nuclear facility is located, the rate may not exceed 100 times the base rate.

Other municipal taxes

Other taxes which may be imposed by Municipal Authorities include Dog Tax, Public Area Usage Tax, Accommodation Tax, Vending Machines Tax, Gaming Machines Tax, Tax on Entry and Stay of a Motor Vehicle in Historical Parts of Towns, Nuclear Facility Tax. There is also an obligatory Local Fee on Communal Waste and Minor Construction Waste.

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Excise Duties - Rates

TABLE 12

PRODUCT	RATE
Mineral oil	
Petrol (leaded or unleaded)	EUR 597.49 or 514.50 / 1,000 l
Middle oil	EUR 481.31 / 1,000 l
Gas oil	EUR 481.31 / 1,000 l
Heating oil	EUR 26.55 / 1,000 kg
Liquid Petroleum Gas and Methane	
Used as fuel	EUR 258.91 / 1,000 kg
Used for heating purposes as a combustible	EUR 0.00 / 1,000 kg
Natural Gas	
1 July 2008 – 31 December 2009	
Used as fuel	EUR 6.63 / MWh
Used for heating purposes as a combustible	EUR 0.66 / MWh
From 1 December 2010	
Used as fuel	EUR 13.27 / MWh
Used for heating purposes as a combustible	EUR 1.32 / MWh
Electricity	
1 July 2008 – 31 December 2009	EUR 0.66 / MWh
From 1 January 2010	EUR 1.32 / MWh
Coal	
From 1 July 2008	EUR 10.62 / t

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TABLE 12 - *continued*

PRODUCT	RATE
Spirits	
Basic rate	EUR 939.38 / hl of 100% ethyl alcohol
Lowered rate	EUR 469.69 / hl of 100% ethyl alcohol
Wine	
Still wine	EUR 0.00 / hl
Sparkling wine	EUR 79.66 / hl
Sparkling wine (alcohol under 8.5%)	EUR 56.42 / hl
Semi-finished product	EUR 82.98 / hl
Beer	
Basic rate	EUR 1.65 / degree Plato / hl
Lowered rate	EUR 1.22 / degree Plato / hl
Tobacco	
Unprocessed tobacco	EUR 64.06 / kg
Cigars	EUR 69.70 / 1,000 pieces
Cigarettes (combined rate)*	
Specific part	EUR 52.44 / 1,000 pieces
Percent part	24% from the price of cigarettes

** The combined rate must in any case be no less than EUR 81.32 per 1,000 pieces.*
Source: Colné riaditeľstvo SR (Customs Directorate of the Slovak Republic)

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Chapter 5

Taxation of Individuals

General

An individual's tax liability is derived from their taxable income. Slovak tax residents are liable to personal income tax on their worldwide income, subject to provisions under applicable double taxation treaties. Slovak tax non-residents are taxed only on income from Slovak sources, including Slovak sourced salaries, rent and interest. Dividends are in general not taxable, unless they are distributed out of profits earned prior to 1 January 2004.

The tax year is the calendar year and the income tax rate is a flat rate of 19%.

Residency

Tax residents

In accordance with the Slovak Income Tax Act, an individual will generally be considered a Slovak resident for tax purposes if:

- the individual is granted permanent residence status in Slovakia, or
- the individual stays for at least 183 days in a calendar year in the territory of Slovakia, whether consecutive or otherwise.

Tax non-residents

If individuals do not have a permanent residence or usual presence in Slovakia, they are not considered to be Slovak residents and thus they are only liable to pay taxes on their Slovak source income (i.e. income from activities performed in or related to Slovakia).

Additionally, individuals working for a Permanent Establishment (PE) whose salary costs are borne by the PE are subject to personal income tax even if they are not in the

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country for at least 183 days in any 12-month period. For further information regarding PE issues please refer to Chapter 4.

An individual will be taxed only on income originating from Slovak sources if he/she is present in Slovakia for less than 183 days. If the individual is in Slovakia for more than 183 days, he/she will be treated as a resident unless the applicable double taxation treaty states otherwise. If individuals have their domicile in a country with which Slovakia has concluded a double taxation treaty, their Slovak tax liability will be limited in accordance with the provisions of the applicable double taxation treaty.

Income can be subject to Slovak tax regardless of whether or not it is remitted to Slovakia.

Expatriates who are employees of foreign companies and are paid from abroad for activities performed in Slovakia could in some cases be exempt from personal income tax. This is not the case if:

- they stay in Slovakia for more than 183 days in a calendar year or a 12-month period, as the case may be, or
- the foreign company has a PE in Slovakia, or
- their remuneration is borne by a Slovak entity.

Taxable Income

Taxable income comprises specified categories of income, less the deductions allowable for each category and certain general deductions. The income categories are as follows:

- income from dependent activities (i.e. employment activities)
- income from independent activities (i.e. entrepreneurial activities, for example, partnerships and professional consultancies and self-employed individuals), including rental income
- income from capital (i.e. interest, dividends distributed from pre-2004 profits etc.) and
- other income (including gains other than exempt gains).

Employment income

Income from employment activities includes any employment related to monetary and nonmonetary benefits obtained by an employee (or in specific cases by other persons).

Examples of benefits in kind that are considered fully taxable include:

- company car available for private use (the taxable benefit is calculated as 1% of the acquisition price of the car including VAT for each month)
- petrol expenses for company car used for private purposes
- rental paid by the employer for a house or flat used by employee

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- all payments connected with a house or flat of the employee (electricity, telephone, water etc.) paid by the employer
- pension plan contributions paid by the employer exceeding the obligatory contributions
- individual insurance or endowment policy premiums paid by the employer
- bonuses paid in connection with work performed in Slovakia
- employee share and share option plans
- income tax paid by the employer on behalf of the employee
- paid home leave
- relocation expenses paid by the employer
- other non-monetary benefits provided by the employer (i.e. dinners, travel expenses exceeding the amounts set by the Act on Travel Allowances or other special legislation, etc).

Income tax prepayments must be withheld or paid from employment income on a monthly basis and remitted to the tax authorities in respect of the following individuals:

- all employees of a Slovak company
- all employees of a Slovak branch of a foreign company
- all employees of a PE
- all individuals hired by a Slovak company as "economic employees" or
- in certain cases individuals staying in Slovakia for 183 days or more.

When an individual who is an employee of a foreign company performs activities for the Slovak company, the individual can be treated as an 'economic employee'. A number of tests apply to determine whether an individual should be treated as an economic employee, but broadly this applies in cases where the foreign employer's contractual obligations, in terms of the services provided by the individual, are to provide manpower to the Slovak employer who supervises and takes responsibility for the activities of the individual.

The Slovak company is treated as effectively leasing manpower and is deemed to be the economic employer of the individual (often an expatriate). The salary paid to the expatriate by the foreign employer is subject to Slovak income tax as if the individual were on the Slovak company's payroll. The tax is normally collected by withholding at source from payments of the service fee incorporating the charge for the employee from the foreign entity to the Slovak employer (e.g., by deduction from the amount invoiced) unless it is agreed that it be collected in some other way such as through tax prepayments.

Entrepreneurial activities

Income from entrepreneurial and other self-employed activities are subject to Slovak taxation in accordance with general tax principles. Individuals who are not Slovak tax residents will be taxed on Slovak sourced income. Broadly, expenses incurred to attain,

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secure and maintain the income of the taxpayer are deductible for tax purposes. As an alternative to actual costs, a flat deduction of 40% of income can be claimed provided the individual is not registered for VAT purposes (for a limited number of professions the flat deduction is 60%).

Rental income

Income from the rental of real estate or movable property is subject to Slovak tax. Depreciation may be claimed against the income from letting a building, generally over a period of 20 years (the property is then deemed to be used for the business purposes which has an effect on the possibility to exempt its sale – please refer below). Deductions can also be claimed for interest and finance charges, repairs and maintenance and real estate taxes. As an alternative, a deduction of 40% of income can be claimed provided the individual is not registered for VAT purposes.

Income from capital

Income from capital includes securities income, profit shares from partnerships and interest income. Each item of taxable income is subject to specific tax rules and generally the Slovak entity making the payment will withhold tax at source, which will constitute either the final tax liability for the recipient or a prepayment. Dividends paid out of profits earned after 1 January 2004 are not subject to tax.

An individual who is a Slovak tax resident must include all taxable foreign sourced interest income in his/her taxable income (as well as dividend income, if taxable). Subject to the provisions of applicable double taxation treaties, foreign tax paid on dividends and interest received can be offset against the Slovak tax liability on the same income up to the amount of the Slovak tax liability. Tax paid on dividends which are not subject to tax in Slovakia cannot be offset against any other tax liability in Slovakia.

Tax-exempt Income

Certain types of income are exempt from tax, e.g.:

- income (capital gains) from the sale of immovable assets after five years from acquisition (2 years if the individual had registered a permanent residence in the property during 2 years preceding the sale), or, if the asset was used for business purposes, after five years from the date when the taxpayer ceased to use the asset for business purposes
- income (capital gains) from the sale of movable assets or, if the asset was used for business purposes, after five years from the date when the taxpayer ceased to use the asset for business purposes.

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Non-monetary benefits that are not subject to tax in Slovakia include:

- the employer's share of payments on behalf of the employee to the compulsory social security system
- reimbursement of business travel expenses up to the statutory limit.

Salary Earned from Abroad

In general, non-residents are not subject to Slovak income tax on compensation attributable to work performed outside Slovakia. Slovak tax residents are subject to tax on non-Slovak source income unless exempt under the provision of a double tax treaty. Unilateral exemption applies to income earned by a resident from dependent activities from foreign sources, from a country with which Slovakia has not entered into a double taxation treaty, as long as such income is documented as taxed in the country of origin, as well as from countries, with which the double taxation treaty exists, if this is more beneficial (i.e. replacing the foreign tax credit method laid down by the treaty – this is applicable as of the tax year 2009). The unilateral exemption also applies to income for work performed for the EU as long as it is taxed by the EU.

Deductions from Income

The following may be deducted from taxable income by both residents and nonresidents:

- mandatory social security contributions paid by the employee in Slovakia or abroad
- a general non-taxable personal allowance. The maximum personal allowance is EUR 4,025.70 for the year 2009 and the maximum amount is automatically increased each year, depending on the increase of the statutory minimum subsistence costs. However, the personal allowance of a given year is gradually decreased, depending on the amount of the taxpayer’s tax base as noted below:
  - The maximum amount of the general non-taxable allowance will be available only up to the yearly tax base of EUR 15,387.12 (i.e. 86 times the subsistence level valid as at 1 January 2009) and it will gradually decrease up to the yearly tax base amount of EUR 31,489.92. No general non-taxable allowance can be claimed if the tax base exceeds EUR 31,489.92.
  - The maximum amount of non-taxable allowance for the spouse (the individual must be a Slovak tax resident or a non-resident deriving at least 90% of income from Slovak sources) will be available only up to the yearly tax base of EUR 31,489.92 (i.e. 176 times the subsistence level valid as at 1 January 2009) and it will gradually decrease up to the yearly tax base amount of EUR 47,592.72. A non-taxable allowance for the spouse cannot be claimed if the tax base exceeds EUR 47,592.72. The income of the spouse is also considered in the calculation of the allowance as its decreasing element.

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Individuals, who are Slovak tax residents or non-residents deriving at least 90% of income from Slovak sources, can deduct from the annual tax base voluntary pension and life insurance contributions of up to EUR 398.33 a year, provided they meet certain specific criteria:

- contributions under the saving or insurance plan are agreedto be paid over at least 10 years, and the taxpayer is not allowed to cash in within this period; and
- the savings or insurance plan can mature at the age of 55 at the earliest.

Reduction of tax – child allowance

The taxpayer's tax liability is reduced by an annual child allowance of EUR 235.92 p.a. per child (valid for 2009). This is however subject to certain conditions including permanent residency in Slovakia or 90% Slovak source test for non-residents.

Personal Income Tax Compliance

An annual personal income tax return must be filed with the tax authorities no later than 31 March following the end of the tax period. Payment of personal income tax liabilities is also due by the filing date. An application to the tax authorities to extend the filing and tax payment date up to a maximum of a further three (in some cases six) months can be made at the latest by 16 March. The extension is however granted at the discretion of the tax authorities. There are significant penalties for non compliance with the regulations.

In some cases, a tax return does not have to be filed, e.g., if the taxpayer had only employment income and provided that the employer has performed, upon the taxpayer’s request (which must be made no later than 15 February), a yearly tax settlement on behalf of the taxpayer (subject to further conditions).

Social Security

EU Directives

Since the accession of Slovakia into the EU on 1 May 2004, the EU Social Security Regulation has been applicable in Slovakia. As a result, social security rules, including Council Regulation (EEC) No 1408/71 on the application of the social security schemes of employed and self-employed persons moving within the Community are applicable, unless any transitional arrangements have been agreed between Slovakia and other member states.

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Social security contributions

TABLE 13

Effective from 2009	Min. comp. base in EUR*	Max. comp. base in EUR**	Employee (in %)	Employer (in %)
Retirement insurance	295.50	2,674.90 / 2,892.12	4.0*	14.0
Disability insurance	295.50	2,674.90 / 2,892.12	3.0	3.0
Sick leave insurance	295.50	1,003.09 / 1,084.55	1.4	1.4
Unemployment insurance	295.50	2,674.90 / 2,892.12	1.0	1.0
Contribution into the Reserve fund of the SIC	295.50	2,674.90 / 2,892.12	0.0	4.75
Guaranty insurance	295.50	1,003.09 / 1,084.55	0.0	0.25
Injury insurance	295.50	no limit	0.0	0.8
Health care insurance	295.50	2,006.17	4.0	10.0
TOTAL in %			**13.4**	**35.2**

* *The minimum base for social security contributions is represented by the minimum salary in Slovakia as set by applicable legislation. The minimum salary is EUR 295.50 as of 1 January 2009.*

** *The maximum base for social security insurance is calculated as multiple of average monthly salary in the Slovak economy in the year 2007 (until 30 June 2009 – the first amount applies) and 2008 (from 1 July 2009 – the second amount applies).*

Source: Ministry of Labour, Social Affairs and Family

This Regulation states, subject to specific exceptions, that the law of the state where the employment is exercised should apply. This means that an employee assigned from another member state to perform work for a Slovak company becomes, in principle, subject to the Slovak social system.

However, the EU Regulation includes exemptions allowing an assigned employee to remain in his/her home social security system. There is a specific exemption available if the assignment is not expected to exceed 12 months. An exemption can also apply if the assignment period is extended by an additional 12 months, provided the specific conditions of the Regulation are met and the competent authorities grant approval.

The EU Regulation is not applicable to individuals who are not subject to the social security scheme in some of the the EU, EEA states or Switzerland. Such foreigners who are employed in Slovakia by a Slovak entity must contribute to the Slovak social security system.

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Slovak domestic law

According to the Slovak social and health care security system, an individual pays contributions to the social security and health care systems as below. It should be noted that Slovak social security payments are subject to a "cap" as highlighted in the table 13.

Inheritance and Gift Tax

Both taxes were abolished with effect from 1 January 2004.

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Chapter 6

Labour Law

General Issues

Information in this chapter is based on legislation effective as of May 2009.

Working hours

The maximum working week is 40 hours, although in some particularly arduous or hazardous occupations the maximum figure may be lower[1].

Overtime work cannot, on average, exceed 8 hours per week during a period not exceeding four consecutive months, unless the employer agrees with the employees' representatives on a longer period, which may not exceed 12 consecutive months. The total compulsory overtime work of an employee may not exceed 150 hours in a calendar year. The employer may, in case of real need, agree with the employee on overtime work above this limit, but subject to a maximum of 250 hours per calendar year.

Pensionable age

The pensionable age is 62 for both men and women[2].

Additional pension insurance

An employer, may provide employees with additional pension insurance[3]. While an employee cannot require his employer to provide additional pension insurance, both employees and the self-employed may take out a policy themselves.

1) Slovak Labour Code Act No. 311/2001 Coll., as amended
2) Act No. 461/2003 Coll. on the Social Insurance, as amended
3) Act No. 123/1996 Coll. on Additional Pension Insurance, as amended

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Working Conditions

Average wage

According to the data from the Slovak Statistical Office, the average gross monthly wage in the first quarter of 2009 was EUR 710.45.

For industrial workers, the average gross monthly wage in the same period was EUR 713.75 and in construction EUR 534.26. Professionals (lawyers, auditors, and interpreters) earn substantially more. The shortage of personnel with good western language and marketing skills has led to increased salaries for people with these abilities. At present, a bilingual executive secretary employed in Bratislava by a western company can earn up to EUR 1,000 per month if he or she has five years or more professional experience.

Minimum wage

The official minimum monthly wage as of 1 January, 2009 was EUR 295.50 and the minimum hourly wage was EUR 1.70.

Unemployment

On the basis of data from Slovak Statistical Office, the unemployment rate in Slovakia in December 2008 was 8.7%. There are substantial regional differences and in Bratislava the figure is much lower. There are imbalances in the labour market with over-employment prevalent in the agricultural sector and under-employment in the service sectors.

Anti-discrimination

Pursuant to Act 365/2004 Coll. on Equal Treatment in Certain Areas and Protection against Discrimination, amending and supplementing certain other laws (Antidiscrimination Act) and in conformity with the principle of equal treatment, any discrimination shall be prohibited in employment relations or similar legal relations or other related legal relations on grounds of sex, religion or belief, racial, national or ethnic origin, disability, age or sexual orientation.

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Employment Contracts

Pre-contractual relations

When recruiting staff, employers must comply with rules aimed at preventing discrimination against certain individuals. An employer may not ask a potential employee questions within a defined range of matters such as family circumstances, age, etc. If the interviewee believes that his/her rights have been violated in this area, he/she may take legal action and claim financial compensation from the employer.

Employment contract

Employment contracts are normally in writing. The parties agree on the job description, place of work, date on which employment commences and the salary (unless this has been agreed in a collective bargaining agreement). Prior to signing the employment contract, the employer must inform the employee of the terms of the contract, the respective rights and duties under the contract, the employer's rules, health and safety regulations, and collective agreements, if any.

If the contract is for a fixed term, it may be concluded cumulatively for a maximum of three years and it can be extended or concluded again only once, while not exceeding three years. Fixed term contract must be agreed upon in writing, otherwise the contract is deemed to be of indefinite duration, and can only be terminated on notice following the occurrence of a limited range of termination events. Fixed-term employment contracts exceeding three years may be prolonged and extended or concluded again only as follows:

- substitution of the employee
- performance of work requiring substantial increase of the number of employees for a transitory period not exceeding eight months in a calendar year
- performance of work, dependant on change of seasons, repeating every year and it does not exceed eight months in a calendar year (seasonal work)
- reasons agreed upon in a collective bargaining agreement.

Fixed-term employment contracts where none of the above circumstances apply may also be extended beyond the three-year period and extended more than once for certain categories of employees, e.g. executives, employees employed in the area of research and development, etc.

Termination of employment contracts

An employment contract can be terminated in writing by:

- mutual agreement
- termination by notice

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- immediate termination
- termination in probationary period.

The expiry of a fixed-term labour contract is also a valid form of termination, although it should be borne in mind that in the case of a foreign national, the date of expiry of his or her residence permit (either by virtue of time or revocation) also serves as a valid termination of the contract of employment.

Both employer and employee may terminate the employment during the probationary period (maximum of three months) without having to give a reason. Written notice should be given and delivered to the other party at least three days before the day of stipulated termination.

An employee can terminate his/her employment immediately if:
- there is a serious threat to his/her health and the employer does not reassign him/her to some other suitable position, within 15 days of the submission of the opinion of a medical expert
- the employer did not pay him/her wage, compensatory wage, travel expenses, compensation for stand-by work, compensation for temporary sick leave or their part within 15 days from the due date
- the life or health of the employee is in immediate jeopardy.

To be effective, however, the employee must terminate the contract within one month of becoming aware of the situation. When a contract is ended this way, the employee is entitled to two months severance allowance (calculated based on the monthly average wage of the employee).

An employer can cancel an employment relationship immediately in exceptional circumstances if:

- an employee has been convicted of an intentional criminal act, or
- there was a serious breach of work discipline by the employee.

For termination on this basis to be effective, notice must be given within two months of the employer becoming aware of the grounds for immediate dismissal and at the latest within one year of the day on which those grounds arose. Cancellation of the employment contract must be in writing and the grounds for the immediate dismissal stated so they are not interchangeable with other grounds for dismissal.

Finally, both employer and employee may terminate an employment contract by providing written notice. An employee may terminate the employment contract for any reason or without stating any reasons for termination. On the other hand, an employer may

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terminate the employment contract by notice only in cases defined by the Labour Code as follows:

- if the employer's business or a part thereof is wound-up or relocated
- if the employee is made redundant by virtue of change in duties, technical equipment, reduction in the number of employees with the aim of increasing work efficiency, or other organizational changes
- if, according to medical assessment, the employee's health condition has caused the long term loss of his/her ability to perform his/her previous work or if he/she can no longer perform such works as a result of an occupational illness or the risk of such illness or if he/she has already received maximum permitted level of exposure in the work place as determined by a decision of a competent public health body
- if the employee does not meet legal requirements for due performance of the agreed work (e.g. a driver who loses his license to drive), or if the employee fails to meet the requirements for proper performance of the job or in case of poor performance
- the employee may only be dismissed when there has been a formal warning issued within the last 6 months and there has been no improvement in the situation
- if there is a serious breach of discipline on the part of the employee, in which case the employer may terminate the employment relationship immediately. When there is an ongoing but less grave breach of working discipline, the employee may be dismissed, provided he has been warned in writing within the previous 6 months as to the possibility of dismissal.

The statutory minimum notice period is two months, increasing to three months for employees with five and more years of service, which runs from the first day of the month following the month after which the notice has been received.

Due to the fact that many employees did not remain with the employer during the notice period, the recent labour code amendment introduced obligation of such employee to compensate the employer in the amount of his/her average monthly wage upon such occurrence. However this has to be agreed upon in writing and in the employment contract.

Mass lay-off

If an employer terminates an employment relationship for specific reasons such as the ones set out above, or by agreement for the same reasons, or other reasons not caused by the employee with at least 20 employees over a period of 90 days, this is considered to be a mass lay-off.

An employer must:

- negotiate with the employees' representatives or in their absence with the employees concerned at least one month in advance of the mass lay-off measures so as to try to avoid or reduce the impact of the lay-off and the measures for mitigating any adverse consequences

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- notify in writing the employees' representatives in particular as to:
  - the reasons for the mass lay-off
  - the number and structure of the affected employees
  - the total number and structure of employees on the company payroll
  - the period over which the lay-off will take place
  - the selection criteria to be used
- notify the local Labour Office of the outcome of the negotiations with the workforce representatives together with the information listed in the paragraph above. This must be done at least one month prior to serving the lay-off notices.

Redundancy and Severance Payments

An employer must make a severance payment when the employment is terminated due to organisational or health reasons at least two months average earnings (three months earnings for staff with 5+ years of service).

Employment Appraisals and Confirmation of Employment

If an employee requests his employer to carry out an appraisal of his performance, this needs to be prepared within 15 days. An employer, however, is not obliged to issue an appraisal for an employee more than two months in advance of the termination of an employment contract.

When an employee leaves his/her employment, the employer must issue him/her with a confirmation of employment stating the duration of the employment, the employee's position, salary deductions (if any), a list of payments out of his/her salary (including already deducted pre-payments and payments relevant to an annual reconciliation of tax pre-payments).

Liability for Damages/Losses

Employees are liable for damages caused to the employer during their employment. If the damage was caused by negligence, the amount of compensation for damage is limited to a maximum of four times the employee's average monthly salary. A special liability agreement (documented in writing) may be concluded if the employee is responsible for cash, securities, goods and inventories, or for a deficit in any of these items.

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Holidays and Absences from Work

Holiday

Any employee who works for the same employer for at least 60 days in a calendar year is entitled to annual paid holiday on a pro rata basis.

The basic holiday entitlement is a minimum of 4 weeks per year, rising to 5 weeks for employees with 15+ years of employment relationship from 18 years of age. Many trade union agreements increase these allowances by one additional week. Wages during holidays are based on the employee's average monthly remuneration. State holidays are regarded as paid leave in addition to the normal holiday entitlement.

State holidays

The state holidays in Slovakia are listed in Table 14 (page 76).

Time off

An employee may be granted time off with or without pay in the following circumstances (non exhaustive):

- medical examination or treatment
- an employee's wife gives birth to a child
- accompanying a family member to a medical facility for emergency examination or treatment of a disease or following an accident
- accompanying a handicapped child to a social care facility or special boarding school
- death of a family member
- the employee's own marriage
- when a disabled employee is unable to get to work due to severe weather
- unexpected breakdown or delay of public transport
- moving house
- job-searching during the notice period.

Social Benefits

Contributions

Both the employer and the employee are required to contribute to the social and health security systems. The current rates are shown in Table 13 (page 67).

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State Holidays

TABLE 14

1 January	New Year and Independence Day
6 January	Three Kings Day (Epiphany)
March/April	Good Friday
March/April	Easter Monday
1 May	Labour Day
8 May	Day of Victory (conclusion of WWII)
5 July	St Cyril and St Methodius Day (national patron saints)
29 August	SNP Day (commemorating the Slovak National Uprising in 1944)
1 September	Constitution Day
15 September	Mary of the Seven Sorrows
1 November	All Saints Day
17 November	Day of Fight Against Totalitarianism
24 - 26 December	Christmas Holidays

The benefit of a state holiday is lost if the state holiday falls on a weekend.

Social Fund

Employers are required to contribute a minimum of 0.6% up to 1% of gross monthly salary to a separate company bank account on behalf of their employees. The purposes for which payments from the Social Fund can be made are explicitly specified by law, e.g., employees' rest and recuperation, subsidy on commuting, etc.

TABLE 15

Sick Leave

Period of Absence	Paid by Employer	Paid by Social Insurance
Days 1 to 3	25% of salary	-
Days 4 to 10	55% of salary	-
Day 11 onwards		55% of salary

Source: Ministry of Labour, Social Affairs and Family

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Chapter 7

Acquisition or Tenure of Property

In this section we consider only an ownership interest in land and/or buildings. In the same way as in some other jurisdictions, the land on which a building stands is regarded as being entirely separate from the building itself.

Under Slovak law, all transactions involving land (sale, purchase, pledge, restrictions on use, encumbrances, etc.) are required to be in writing and then, in order to be effective and enforceable, recorded in the Cadastral Register. Recent changes in the process have considerably accelerated registrations, with the Register now being accessible through the Internet. Even so, it is advisable to seek professional advice, especially as regards investigations into title, zoning status, etc.

Prior to Slovak accession to the EU on 1 May 2004, the ownership of property by foreigners was not possible. Now, however, the law does allow foreign nationals to acquire property in the country. It should be noted that there are some exceptions to this as regards agricultural land and forests. Again, it is recommended that appropriate professional advice be sought, since there is a procedure whereby EU citizens who have occupied agricultural land and have the appropriate permission, will be allowed to purchase three years from the date of accession to the EU.

The State continues to have powers of compulsory purchase of property, although both Slovak and foreign owners are equal in the eyes of the law in this respect and receive the same treatment. Compulsory purchase is, however, only allowed within the strict parameters laid down in the law. If it is in the public interest, the property owners receive fair compensation only to the extent that is necessary for achieving the objective (e.g., it would not be permissible for the State to compulsorily acquire a complete factory site solely to obtain a few square meters needed to complete a road junction) and if there is no other option, i.e. agreement or other choices.

From the viewpoint of the potential investor, it is important to note that the State does have powers to use compulsory purchase for purposes of site assembly for a major and substantial investment into Slovakia.

Generally speaking, current Slovak property law is EU compliant, although there are still changes and amendments coming into force and it is important to ensure that decisions are based on up-to-date information, hence we recommend contacting the professionals.

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Chapter 8

Government Controls

Competition and Antitrust Laws

Under the Commercial Code, unfair competition is defined as behavior which is contrary to standard competition practices and which may be detrimental to other competitors or consumers.

In particular, the following activities are seen as being unfair competition:

- deceptive advertising
- misleading descriptions of goods and services, misrepresentation
- parasitic exploitation of competitor's reputation, products or services (e.g., it is unacceptable to advertise a product by describing it as being "the same as the products of company x")
- bribery, defamation
- violation of business secrets, and
- endangering consumer health or the environment.

Other forms of unlawful restrictions of competition and business are covered by law. Neither legal entities nor individuals may

- enter into agreements restricting competition
- abuse a dominant position in the market
- proceed with the creation of a so-called 'concentration' without the consent of the Antimonopoly Authorities.

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Agreements Restricting Competition

Agreements (written, oral or otherwise) restricting competition are defined as agreements, actions in concert or decisions of associations of entrepreneurs that aim to or may result in the restriction of economic competition.

The Antimonopoly Act strictly states that any agreements restricting competition are prohibited, in particular agreements involving:

- direct or indirect price fixing, or fixing of other commercial conditions
- commitment to limit or control production, sale, technological development or investments
- division of market or sources of supply
- agreements involving discrimination of third parties
- conclusion of contracts is subject to acceptance of other supplementary obligations which are not related to the subject of the original contracts, either by their nature or according to their commercial usage (tying-in)
- co-ordination of offers in public tenders (e.g., bid rigging).

Under certain strict conditions some of the abovementioned agreements may be concluded. These conditions are stipulated by the EU block exemption directives which apply also to purely Slovak relations (by virtue of special provision in the Antimonopoly Act). Although businesses should assess fulfillment of these conditions on their own, they may ask for an opinion of the authorities.

Abuse of Dominant Position

As regards a dominant position, acquisition or holding of such position on the relevant market is not prohibited by law; however, abuse of a dominant position is strictly forbidden. The Antimonopoly Act does not assume any particular threshold with respect to the size of market share of a particular entrepreneur in order to determine that such entrepreneur holds a dominant position. It simply states that a dominant position on the relevant market is held when one or more entrepreneurs, who are not exposed to significant competition, may behave independently on the market due to their economic power.

Abuse of dominant position is in particular:

- direct or indirect enforcement of disproportionate prices or contractual conditions
- restriction or threat of restriction of production, sales or technical development of goods with detrimental effects towards consumers
- applying different conditions for equal or comparable transactions to individual entrepreneurs resulting in real or possible competitive disadvantage
- making conclusion of a contract subject to another party's acceptance of conditions unrelated to the subject of contract

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- temporary abuse of economic competition with the aim of excluding competition
- abuse of a dominant position by an owner or administrator of a so-called 'unique' facility.

Control of Concentrations

Concentration is a process of the economic linking of entrepreneurs through

- a merger or amalgamation of two or more previously independent entrepreneurs, or
- an acquisition of direct or indirect control by one or more entrepreneurs over an enterprise (or part thereof) of another entrepreneur(s).

The establishment of a joint venture jointly controlled by two or more entrepreneurs that will in future permanently operate as an independent economic subject, is also considered to be a concentration.

Notification to the Slovak Antimonopoly Office is mandatory if:

- the combined worldwide turnover of the participants to the concentration is at least EUR 46 million and at the same time each of the two or more participants to the concentration had an aggregate turnover in Slovakia of EUR 14 million during the accounting period preceding the concentration, or
- one or more of the participants to the concentration had an aggregate turnover of at least EUR 19 million in Slovakia and at least one other participant to the concentration achieved a worldwide turnover of at least EUR 46 million during the accounting period preceding the concentration.

The Antimonopoly Office must be notified of the concentration; the parties may not put into effect the relevant transaction prior to the approval of the Antimonopoly Office. The Antimonopoly Office must decide on the concentration within 60 working days from the day of delivery of notification; this time period may be prolonged in more complex cases.

Price Controls

With the introduction of a market economy, the former strict price controls were removed and at present, about 95% of prices are set freely by companies. Only the prices of energy, rents for particular premises and the prices of certain services are still regulated.

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Import/Export Controls

Slovakia is a member of the WTO, and is trying to maintain as high a degree of trade freedom as possible. At present, imports and exports of limited number of products (such as arms and other military materials) are subject to licenses issued by the Slovak Ministry of Economy.

Certification of Imported Goods

Certain specified products are subject to a mandatory certification procedure when imported into Slovakia. The list of products changes from time to time. To confirm that imported goods comply with Slovak technical standards, Slovak customs may require a product certificate before goods can be imported into the country. The certificate can be obtained from the appropriate office after testing has taken place. However, if the product already has a foreign certificate complying with Slovak standards, only a certificate of conformity is issued without any prior testing of the product.

Foreign Exchange

A business seeking to trade in foreign exchange assets and/or provide foreign exchange services in Slovakia needs to obtain a foreign exchange license from the National Bank of Slovakia. Foreign exchange licenses cannot be transferred to any other person, or passed on to a legal successor[4)].

A foreign exchange resident (an individual with residence in, or a legal entity with a seat in Slovakia) and the branch offices of a non-resident in Slovakia are obliged to provide the National Bank of Slovakia with information and data relating to:

- collections, payments and transfers relating to direct investment, loans and securities of foreign exchange residents abroad and in relation to non-residents; this is not applicable if the operations are performed through non-residents
- establishment of accounts abroad and balances thereof.

A foreign exchange resident must also notify the National Bank of Slovakia regarding its assets and liabilities relating to non residents, with the exception of assets and liabilities relating to a branch office of a non-resident in Slovakia.

Cross-border transfers of funds may be performed only through the National Bank of Slovakia, or through a licensed foreign exchange dealer (usually a bank) or a special payment system.

4) Foreign Exchange Act, 1995

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Many of the restrictions regarding Slovaks holding assets abroad, especially in the EU countries, or vice versa, for EU citizens in Slovakia, were ended up on accession to the EU, e.g., foreigners may acquire Slovak real estate with the exception of agricultural and forest land (where they need to fulfill certain conditions).

Residence of Foreigners

Visa requirements have been gradually reduced also mainly due to the expansion of the Schengen zone of which Slovak republic became part of on 21 December 2007. Few visitors need a visa for the first 90 days, but travellers from certain countries must still apply to enter Slovakia. The following types of visas are issued by the Slovak authorities[5]:

- airport transit visa
- transit visa
- short-term visa
- long-term visa

Visa requirements do not apply to citizens of the EU member states, contracting states of the Agreement on the European Economic Area and Switzerland, also under certain conditions to citizens of third countries if they have a valid residence permit in the European Economic Area.

In case of a foreigner's intended long-term stay in Slovakia, particularly for the purposes of doing business, work, study or activities under special programmes, they must apply for a temporary residence permit. The application should be filed with the Embassy of the Slovak Republic in the country which issued their travel documents or in the country where they reside. The relevant police department decides on the application within 90 days of the application. A temporary residence permit may be granted for a maximum of two years. Prior to its expiry the permit may be renewed and extended up to a maximum of five years.

Please note that a statutory representative of a business must be either a Slovak resident or a foreigner holding a long-term residence permit, unless a foreigner is a citizen of a member state of the European Union or a member state of the Organisation for Economic Co-operation and Development (OECD).

A foreigner may, depending on his meeting statutory requirements, be granted a permanent or a tolerated residence permit.

A special regime applies for citizens of the European Economic Area. These do not have to apply for the above-mentioned permits when intending to reside in Slovakia. However, if they contemplate a permanent stay, they must register with the local police department.

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[5] Act No. 48/2002 Coll. on the Residence of Foreigners, as amended

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Employment of Foreigners

Foreign nationals coming to work in Slovakia, even for short periods, must in general have a work permit and a temporary residence permit for the purpose of work (as regards the latter, please see the previous section).

Work permits are granted by the local labour office on the basis of a written application. The main requirement is a job offer by an employer to the respective foreigner. The work permit can be granted only if the job cannot be filled by a registered unemployed person. There is no legal requirement for granting of a work permit to a foreigner, even if all the statutory requirements are met.

Certain categories of foreigners do not need work permits in order to work in Slovakia, e.g. these are:

- citizens of EU member states
- those having a permanent residence permit for Slovakia
- educationalists, students, artists, persons procuring supplies of goods or services or service workers, whose employment in Slovakia does not exceed 7 consecutive calendar days or 30 days in a calendar year in total
- those appointed to Slovakia by an employer with its seat in another EU member state in connection with the provision of services being secured by such employer
- shareholders or the members of the statutory bodies of companies or co-operatives operating in Slovakia.

A work permit may be granted for a maximum period of two years. It may be renewed annually for a further two years.

[6] Act No. 5/2004 Coll. on Employment Services

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APPENDIX

Tax Treaties

European Union countries

Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Romania, Slovenia, Spain, Sweden, United Kingdom.

Other countries

Australia, Belarus, Bosnia and Herzegovina, Brazil, Canada, China, Croatia, Iceland, India, Indonesia, Israel, Japan, Kazakhstan, Macedonia, Mexico, Moldova, Mongolia, Nigeria, Norway, Republic of South Africa, Russia, Serbia, Montenegro, Singapore, Sri Lanka, South Korea, Switzerland, Tunisia, Turkey, Turkmenistan, Ukraine, United States, Uzbekistan and Vietnam (Egypt, Libya, Syria – still to be signed or ratified or published).

Please note that as a general principle, a double taxation avoidance treaty is effective from the calendar year that follows the year in which the treaty becomes valid. Refer to the treaty concerned for further details.

Where two or more rates are quoted for dividends, in most cases the lower rate applies only to dividends received by certain corporations. Dividends sourced in Slovakia (from profits earned in 2004 and onwards) are in general not subject to any withholding tax in Slovakia. Where two or more rates are quoted for interest, often the lower rate applies only to interest received by banks. Where two or more rates are quoted for royalties, often the lower rate or nil rate applies for copyrights. Refer to the treaty concerned for further details.

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Treaty country	Valid from	Maximum tax rate on gross amount from Slovakia into the treaty country		
		Dividends [A)]	Interest	Royalties
Non-Treaty Rate	N/A	19	19	19
Australia	22 December 1999	15	10	10
Austria	12 February 1979	10	0	5 or 0
Belgium	13 June 2000	5 or 15	10 or 0	5
Bosnia and Herzegovina	17 April 1983	5 or 15	0	10
Belarus	5 July 2000	10 or 15	10 or 0	5 or 10
Brazil	14 November 1990	15	0,10, 15	15 or 25
Bulgaria	2 May 2001	10	10 or 0	10
Canada	18 December 2001	5 or 15	10 or 0	10 or 0
China	23 December 1987	10	10 or 0	10
Croatia	14 November 1996	5 or 10	10	10
Cyprus	30 December 1980	10	10 or 0	5 or 0
Czech Republic	14 July 2003	5 or 15	0	10 or 0
Denmark	27 December 1982	15	0	5 or 0
Egypt**				
Estonia	29 March 2006	10	10 or 0	10
Finland	6 May 2000	5 or 15	0	0, 1, 5 or 10
France	25 January 1975	10	0	5 or 0
Germany	17 November 1983	5 or 15	0	5
Greece	23 May 1989	19	10 or 0	10 or 0
Hungary	21 December 1995	5 or 15	0	10
India	13 March 1987	15 or 25	15 or 0	30
Indonesia	30 January 2001	10	10 or 0	10 or 15
Ireland	30 December 1999	0 or 10	0	10 or 0
Israel	23 May 2000	10 or 5	2, 5 or 10	5
Island	19 June 2003	5 or 10	0	10
Italy	26 June 1984	15	0	5 or 0

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Treaty country	Valid from	Maximum tax rate on gross amount from Slovakia into the treaty country		
		Dividends [A)]	Interest	Royalties
Japan	25 November 1978	10 or 15	0 or 10	10 or 0
South Korea	8 July 2003	5 or 10	10 or 0	10 or 0
Kazakhstan	28 July 2008	10 or 15	10 or 0	10
Japan	25 November 1978	10 or 15	0 or 10	10 or 0
Libya***				
Latvia	12 June 2000	10	10 or 0	10
Lithuania	16 December 2002	10	10 or 0	10
Luxemburg	30 December 1992	5 or 15	0	10 or 0
Malta	20 August 2000	5	0	5
Mexico	28 September 2007	0	10 or 0	10
Macedonia	17 April 1983	5 or 15	0	10
Moldova	17 September 2006	5 or 15	10	10
Montenegro	15 October 2001	5 or 15	10	10
Mongolia*	1 January 1979	0 or ?*	0	0 or ?*
Netherlands	5 November 1974	0 or 10	0	5
Nigeria	2 December 1990	12.5 or 15	15 or 0	10
Norway	28 December 1979	5 or 15	0	0 or 5
Poland	21 December 1995	5 or 10	10 or 0	5
Portugal	2 November 2004	10 or 15	10	10
Romania	29 December 1995	10	10 or 0	10 or 15
Russia	1 May 1997	10	0	10
Serbia	15 October 2001	5 or 15	10	10
Singapore	12 June 2006	5 or 10	0	10
Slovenia	11 July 2004	5 or 15	10	10
South Africa	30 June 1999	5 or 15	0	10
Spain	5 June 1981	5 or 15	0	5 or 0
Sri Lanka	19 June 1979	15	0 or 10	10 or 0

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TABLE 16 - Continued

Treaty country	Valid from	Maximum tax rate on gross amount from Slovakia into the treaty country		
		Dividends [A)]	Interest	Royalties
Sweden	8 October 1980	0 or 10	0	5 or 0
Switzerland	23 December 1997	5 or 15	10 or 0	5 or 0
Syria***				
Tunisia	25 October 1991	15 or 10	12 or 0	5 or15
Turkey	2 December 1999	5 or 10	10 or 0	10
Turkmenistan	26 June 1998	10	10 or 0	10
Ukraine	22 November 1996	10	10	10
United Kingdom	20 December 1991	5 or 15	0	10 or 0
United States	30 December 1993	5 or 15	0	10 or 0
Uzbekistan	17 October 2003	10	10	10
Vietnam	29 July 2009	5 or 10	10 or 0	5 or 10 or 15

* The CMEA treaties. The domestic rate applies to individuals; there is no reduction under the treaty.

** To be signed by Egypt

*** Waiting for ratification

A) A distribution of profit after tax in the form of dividends is in general not subject to withholding tax unless the distributed profit was derived prior to 1 January 2004, when rate of 19% would apply. Dividends paid after 1 April 2004 from a Slovak subsidiary to its EU Parent Company are in any event not subject to withholding tax, although these dividends may relate to the distribution of profits earned before 1 January 2004. The receiving (EU parent) company needs to possess a direct shareholding of at least 25% at the time of distribution. Dividends paid to a non EU parent in respect of profits derived prior to 1 January 2004 are subject to withholding tax at 19%, unless a double taxation treaty applies.

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Useful Addresses

Slovak Government Offices

The Slovak Republic Government
Office Address: Námestie slobody 1, 813 70 Bratislava
Tel.: +421 (0)2/57 29 51 11
Fax: +421 (0)2/52 49 75 95
www.government.gov.sk

SARIO - Slovak Investment and Trade Development Agency
Mgr. Juraj Kiesel, appointed general director
Address: Martinčekova 17, 821 01 Bratislava
Tel.: +421 (0)2/58 26 01 00
Fax: +421 (0)2/58 26 01 09
www.sario.sk

Slovak Ministry of Economy
Doc. Ing. Ľubomír Jahnátek, CSc., Minister
Address: Mierová 19, 827 15 Bratislava
Tel.: +421 (0)2/48 54 11 11
Fax: +421 (0)2/43 33 78 27
www.economy.gov.sk

Slovak Ministry of Finance
Ing. Ján Počiatek, Minister
Address: Štefanovičova 5, 817 82 Bratislava
Tel.: +421 (0)2/59 58 11 11
Fax: +421 (0)2/52 58 30 48
www.finance.gov.sk

Slovak Antimonopoly Office
Ing. Danica Paroulková, chairperson
Address: Drieňová 24, 826 03 Bratislava
Tel.: +421 (0)2/48 29 71 11
Fax: +421 (0)2/43 33 35 72
www.antimon.gov.sk

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Slovak Embassies Abroad

For a complete list of Slovak embassies, missions and Slovak institutes abroad, please visit the portal at www.mfa.sk.

You can select the appropriate office according to the country or type of office (embassies, missions, consulates general and Slovak institutes).

Financial Institutions - Central Bank

Národná banka Slovenska
Ing. Ivan Šramko, governor
Address: Imricha Karvaša 1, 813 25 Bratislava
Tel.: +421 (2) 57 87 11 11
Fax: +421 (2) 57 87 11 00
www.nbs.sk

Financial Institutions - Commercial Banks

Calyon S.A., pobočka zahraničnej banky
Charles – Henri de Vanssay, chairman of the board and general director
Address: Nám. 1. mája 18, 811 06 Bratislava
Tel: +421 (0)2/59 26 21 11, 59 26 25 00
Fax: +421 (0)2/59 26 21 12, 59 26 21 19, 59 26 22 48
www.calyon.sk

Citibank Europe plc, pobočka zahraničnej banky
Eric Lemmens, general director
Address: Mlynské nivy 43, 825 01 Bratislava 26
Tel: +421 (0)2/58 23 01 11
Fax: +421 (0)2/58 23 02 00
www.citibank.sk

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ČSOB stavebná sporiteľňa, a. s.
Ing. Ľubomír Kováčik, chairman of the board and general director
Address: Radlinského 10, 813 23 Bratislava
Tel: +421 (0)2/59 66 78 21
Fax: +421 (0)2/59 66 79 20
www.csobsp.sk

Dexia banka Slovensko a. s.
Stefaan Depaepe, chairman of the board and general director
Address: Hodžova 11, 010 11 Žilina
Tel: +421 (0)41/51 11 101, 202
Fax: +421 (0)41/562 41 29
www.dexia.sk

Eximbanka SR
Ing. Igor Lichnovský, general director
Address: Grösslingova 1, 813 50 Bratislava
Tel: +421 (0)2/59 39 81 11
Fax: +421 (0)2/52 93 16 24
www.eximbanka.sk

Komerční banka Bratislava, a. s.
Ing. Jaromír Chabr, chairman of the board and general director
Address: Hodžovo nám. 1A, 810 00 Bratislava
Tel: +421 (0)2/59 27 73 28, 329
Fax: +421 (0)2/52 96 19 59
www.koba.sk

VOLKSBANK Slovensko, a. s.
Kurt Nikolaus Kapeller, chairman of the board
Address: Vysoká 9, 810 00 Bratislava
Tel: +421 (0)2/59 65 11 11
Fax: +421 (0)2/54 41 24 44
www.volksbank.sk

OTP Banka Slovensko, a. s.
Ernő Kelecsényi, chairman of the board and general director
Address: Štúrova 5, 813 54 Bratislava
Tel: +421 (0)2/59 79 11 11
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Illustrative Financial Statements according to Slovak Accounting Regulations *(for entrepreneurs)*

Designation a	ASSETS b	Line No. c	Current accounting period			Preceding period accounting
			1		2	3
			Gross - part 1	Correction - part 2	Net	Net
	Total assets line 002 + line 031 + line 061	1				
A.	**Non-current assets line 003 + line 012 + line 022**	2				
A.I.	**Non-current intangible assets - total (lines 004 to 011)**	3				
A.I.1.	Incorporation expenses (011) - /071, 091A/	4				
2.	Capitalized development costs (012) - /072, 091A/	5				
3.	Software (013)-/073, 091A/	6				
4.	Valuable rights (014) - /074, 091A/	7				
5.	Goodwill (015) - /075, 091A/	8				
6.	Other non-current intangible assets (019, 01X) - /079, 07X, 091A/	9				
7.	Acquisition of non-current intangible assets (041) - 093	10				
8.	Advance payments made for non-current intangible assets (051) - 095A	11				
A.II.	**Property, plant and equipment - total (lines 013 to 021)**	12				
A.II.1.	Land (031) - 092A	13				
2.	Structures (021) - /081, 092A/	14				
3.	Individual movable assets and sets of movable assets (022) - /082, 092A/	15				
4.	Perennial crops (025) - /085, 092A/	16				
5.	Livestock (026) - /086,092A/	17				
6.	Other property, plant and equipment (029, 02X, 032) - /089, 08X, 092A/	18				

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Designation a	ASSETS b	Line No. c	Current accounting period			Preceding period accounting
			1		2	3
			Gross - part 1	Correction - part 2	Net	Net
7.	Acquisition of property, plant and equipment (042) - 094	19				
8.	Advance payments made for property, plant and equipment (052) - 095A	20				
9.	Value adjustment to acquired assets (+/- 097) +/- 098	21				
A.III.	**Non-current financial assets - total (lines 023 to 030)**	**22**				
A.III.1.	Shares and ownership interests in a subsidiary (061) - 096A	23				
2.	Shares and ownership interests with significant influence over enterprises (062) - 096A	24				
3.	Other long-term shares and ownership interests (063, 065) - 096A	25				
4.	Intercompany loans (066A) - 096A	26				
5.	Other non-current financial assets (067A, 069, 06XA) - 096A	27				
6.	Loans with maturity up to one year (066A, 067A, 06XA)-096A	28				
7.	Acquisition of non-current financial assets (043) - 096A	29				
8.	Advance payments made for non-current financial assets (053) - 095A	30				
B.	**Current assets line 032 + line 040 + line 047 + line 055**	**31**				
B.I.	**Inventory - total (lines 033 to 039)**	**32**				
B.I.1.	Raw material (112, 119, 11X) - /191, 19X/	33				
2.	Work in progress and semi-finished products (121, 122, 12X) - /192, 193, 19X/	34				

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Designation a	ASSETS b	Line No. c	Current accounting period			Preceding period accounting
			1		2 Net	3 Net
			Gross - part 1	Correction - part 2		
3.	Construction contracts where the expected time of completion exceeds one year 12X-192A	35				
4.	Finished goods (123) - 194	36				
5.	Animals (124) - 195	37				
6.	Merchandise (132, 13X, 139) - /196, 19X/	38				
7.	Advance payments made for inventory (314A) - 391A	39				
B.II.	**Non-current receivables - total (lines 041 to 046)**	**40**				
B.II.1.	Trade receivables (311A, 312A, 313A, 314A, 315A, 31XA) - 391A	41				
2.	Receivables from a subsidiary and a parent (351A) - 391A	42				
3.	Other intercompany receivables (351A) - 391A	43				
4.	Receivables from participants, members, and association (354A, 355A, 358A, 35XA) - 391A	44				
5.	Other receivables (335A, 33XA, 371A, 373A, 374A, 375A, 376A, 378A) - 391A	45				
6.	Deferred tax asset (481 A)	46				
B.III.	**Current receivables - total (lines 048 to 054)**	**47**				
B.III.1.	Trade receivables (311A, 312A, 313A, 314A, 315A, 31XA) - 391A	48				
2.	Receivables from a subsidiary and a parent (351A) - 391A	49				
3.	Other intercompany receivables (351A) - 391A	50				

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Designation a	ASSETS b	Line No. c	Current accounting period			Preceding period accounting
			1		2 Net	3 Net
			Gross - part 1	Correction - part 2		
4.	Receivables from participants, members, and association (354A, 355A, 358A, 35XA, 398A) - 391A	51				
5.	Social security (336) - 391A	52				
6.	Tax assets and subsidies (341, 342, 343, 345, 346, 347) - 391A	53				
7.	Other receivables (335A, 33XA, 371A, 373A, 374A, 375A, 376A, 378A) - 391A	54				
B.IV.	**Financial accounts - total (lines 056 to 060)**	**55**				
B.IV.1.	Cash on hand (211, 213, 21X)	56				
2.	Bank accounts (221A, 22X +/-261)	57				
3.	Bank accounts with notice period exceeding one year 22XA	58				
4.	Current financial assets (251, 253, 256, 257, 25X) - /291, 29X)	59				
5.	Acquisition of current financial assets (259,314A) - 291	60				
C.	**Accruals/deferrals - total (lines 062 to 065)**	**61**				
C.1.	Prepaid expenses - long-term (381A, 382A)	62				
2.	Prepaid expenses - short-term (381A, 382A)	63				
3.	Accrued income - long-term (385A)	64				
4.	Accrued income - short-term (385A)	65				

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Designation a	LIABILITIES AND EQUITY b	Line No. c	Current accounting period 4	Preceding accounting period 5
	Total equity and liabilities line 067 + line 088 + line 119	**66**		
A.	**Equity line 068 + line 073 + line 080 + line 084 + line 087**	**67**		
A.I.	**Share capital - total (lines 069 to 072)**	**68**		
A.I.1.	Share capital (411 or +/- 491)	69		
2.	Own shares and own ownership interests (/-/252)	70		
3.	Change in share capital +/- 419	71		
4.	Receivables related to unpaid share capital (/-/ 353)	72		
A.II.	**Capital funds - total (lines 074 to 079)**	**73**		
A.II.1.	Share premium (412)	74		
2.	Other capital funds (413)	75		
3.	Legal reserve fund (Non-distributable fund) from capital contributions (417, 418)	76		
4.	Differences from revaluation of assets and liabilities (+/- 414)	77		
5.	Investment revaluation reserves (+/- 415)	78		
6.	Differences from revaluation in the event of a merger, amalgamation into a separate accounting entity or demerger (+/- 416)	79		
A.III.	**Funds created from profit - total (lines 081 to 083)**	**80**		
A.III.1.	Legal reserve fund (421)	81		
2.	Non-distributable fund (422)	82		
3.	Statutory funds and other funds (423, 427, 42X)	83		

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Designation a	LIABILITIES AND EQUITY b	Line No. c	Current accounting period 4	Preceding accounting period 5
A.IV.	**Net profit/loss of previous years line 085 and line 086**	**84**		
A.IV.1.	Retained earnings from previous years (428)	85		
2.	Accumulated losses from previous years (/-/429)	86		
A.V.	**Net profit/loss for the accounting period after tax /+-/ line 001 - (line 068 + line 073 + line 080 + line 084 + line 088 + line 119)**	**87**		
B.	**Liabilities line 89 + line 94 + line 105 + line 115 + line 116**	**88**		
B.I.	**Provisions - total (lines 090 to 093)**	**89**		
B.I.1.	Legal provisions - long-term (451A)	90		
2.	Legal provisions - short-term (323A, 451A)	91		
3.	Other long-term provisions (459A, 45XA)	92		
4.	Other short-term provisions (323A, 32X, 459A, 45XA)	93		
B.II.	**Non-current liabilities - total (lines 095 to 104)**	**94**		
B.II.1.	Non-current trade liabilities (479A)	95		
2.	Unbilled long-term supplies (476A)	96		
3.	Non-current liabilities to a subsidiary and a parent (471A)	97		
4.	Other non-current intercompany liabilities (471A)	98		
5.	Long-term advance payments received (475A)	99		
6.	Long-term bills of exchange to be paid (478A)	100		

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Designation a	LIABILITIES AND EQUITY b	Line No. c	Current accounting period 4	Preceding accounting period 5
7.	Bonds issued (473A/-/255A)	101		
8.	Liabilities related to social fund (472)	102		
9.	Other non-current liabilities (474A, 479A, 47XA, 372A, 373A, 377A)	103		
10.	Deferred tax liability (481A)	104		
B.III.	**Current liabilities - total (lines 106 to 114)**	**105**		
B.III.1.	Trade liabilities (321, 322, 324, 325, 32X, 475A, 478A, 479A, 47XA)	106		
2.	Unbilled supplies (326, 476A)	107		
3.	Liabilities to a subsidiary and a parent (361A, 471A)	108		
4.	Other intercompany liabilities (361A, 36XA, 471A, 47XA)	109		
5.	Liabilities to partners and association (364, 365, 366, 367, 368, 398A, 478A, 479A)	110		
6.	Liabilities to employees (331,333,33X,479A)	111		
7.	Liabilities related to social security (336, 479A)	112		
8.	Tax liabilities and subsidies (341, 342, 343, 345, 346, 347, 34X)	113		
9.	Other liabilities (372A, 373A, 377A, 379A, 474A, 479A, 47X)	114		
B.IV.	**Short-term financial assistance (241, 249, 24X, 473A,/-/255A)**	**115**		
B.V.	**Bank loans line 117 and line 118**	**116**		
B.V.1.	Long-term bank loans (461A, 46XA)	117		
2.	Current bank loans (221A, 231, 232, 23X, 461A, 46XA)	118		

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Designation a	LIABILITIES AND EQUITY b	Line No. c	Current accounting period 4	Preceding accounting period 5
C.	**Accruals/deferrals - total (lines 120 to 123)**	**119**		
C.1.	Accrued expenses - long-term (383A)	120		
2.	Accrued expenses - short-term (383A)	121		
3.	Deferred income - long-term (384A)	122		
4.	Deferred income - short-term (384A)	123		

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Designation a	TEXT b	Line No. c	Actual data	
			Current accounting period 1	Preceding accounting period 2
I.	Revenue from the sale of merchandise (604)	1		
A.	Cost of merchandise sold (504, 505A)	2		
+	**Trade margin line 01- line 02**	**3**		
II.	**Production line 05 + line 06 + line 07**	**4**		
II.1.	Revenue from the sale of own products and services (601, 602)	5		
2.	Changes in internal inventory (+/- account group 61)	6		
3.	Own work capitalized (account group 62)	7		
B.	**Production line 09 + line 10**	**8**		
B.1.	Consumed raw materials, energy consumption, and consumption of other non-inventory supplies (501, 502, 503, 505A)	9		
2.	Services (account group 51)	10		
+	**Added value line 03 + line 04 -line 08**	**11**		
C.	Personnel expenses total (lines 13 to 16)	12		
C.1.	Wages and salaries (521, 522)	13		
2.	Remuneration of board members of company or cooperative (523)	14		
3.	Social security expenses (524, 525, 526)	15		
4.	Social expenses (527, 528)	16		
D.	Taxes and fees (account group 53)	17		
E.	Amortization and value adjustments to non-current intangible assets and depreciation and value adjustments to property, plant and equipment (551,553)	18		

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Designation a	TEXT b	Line No. c	Actual data	
			Current accounting period 1	Preceding accounting period 2
III.	Revenue from the sale of non-current assets and raw materials (641, 642)	19		
F.	Carrying value of non-current assets sold and raw materials sold (541, 542)	20		
G.	Creation and reversal of value adjustments to receivables (+/- 547)	21		
IV.	Other operating income (644, 645, 646, 648, 655, 657)	22		
H.	Other operating expenses (543, 544, 545, 546, 548, 549, 555, 557)	23		
V.	Transfer of operating income (-) (697)	24		
I.	Transfer of operating expenses (-) (597)	25		
*	**Profit/loss from operations line 11 - line 12 - line 17 - line 18 + line 19 - line 20 - line 21 + line 22 - line 23 + (-line 24) - (-line 25)**	**26**		
VI.	Revenue from the sale of securities and shares (661)	27		
J.	Securities and shares sold (561)	28		
VII.	Income from non-current financial assets line 30 + line 31 + line 32	29		
VII.1	Income from securities and ownership interests in a subsidiary and in a company where significant influence is held (665A)	30		
2.	Income from other long-term securities and shares (665A)	31		
3.	Income from other non-current financial assets (665A)	32		
VIII.	Income from current financial assets (666)	33		
K.	Expenses related to current financial assets (566)	34		

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Designation a	TEXT b	Line No. c	Actual data	
			Current accounting period 1	Preceding accounting period 2
IX.	Gains on revaluation of securities and income from derivative transactions (664, 667)	35		
L.	Loss on revaluation of securities and expenses related to derivative transactions (564, 567)	36		
M.	Creation and reversal of value adjustments to financial assets +/- 565	37		
X.	Interest income (662)	38		
N.	Interest expense (562)	39		
XI.	Exchange rate gains (663)	40		
O.	Exchange rate losses (563)	41		
XII.	Other income from financial activities (668)	42		
P.	Other expenses related to financial activities (568, 569)	43		
XIII.	Transfer of financial income (-) (698)	44		
R.	Transfer of financial expenses (-) (598)	45		
*	**Profit/loss from financial activities line 27 - line 28 + line 29 + line 33 - line 34 + line 35 - line 36 - line 37 + line 38 - line 39 + line 40 - line 41 + line 42 - line 43 +(-line 44) - (-line 45)**	**46**		
**	**Profit/loss from ordinary activities before tax line 26 + line 46**	**47**		
S.	Income tax on ordinary activities line 49+ line 50	48		
S.1.	- current (591,595)	49		
2.	- deferred (+/-592)	50		
**	**Profit/loss from ordinary activities after tax line 47 - line 48**	**51**		

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Designation a	TEXT b	Line No. c	Actual data	
			Current accounting period 1	Preceding accounting period 2
XIV.	Extraordinary income (account group 68)	52		
T.	Extraordinary expenses (account group 58)	53		
*	**Profit/loss from extraordinary activities before tax line 52 - line 53**	**54**		
U.	Income tax on extraordinary activities line 56 + line 57	55		
U.1.	- current (593)	56		
2.	- deferred (+/- 594)	57		
*	**Profit/loss from extraordinary activities after tax line 54 - line 55**	**58**		
***	**Profit/loss for the accounting period before tax (+/-) (line 47 + line 54)**	**59**		
V.	Transfer of net profit/net loss shares to partners (+/-596)	60		
***	**Profit/loss for the accounting period after tax (+/-) [line 51 + line 58 - line 60]**	**61**		

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* annual economic analysis Trend Top; no. 1 for years 2000-2007 and no. 2 in 2008

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