

TREND Watch™

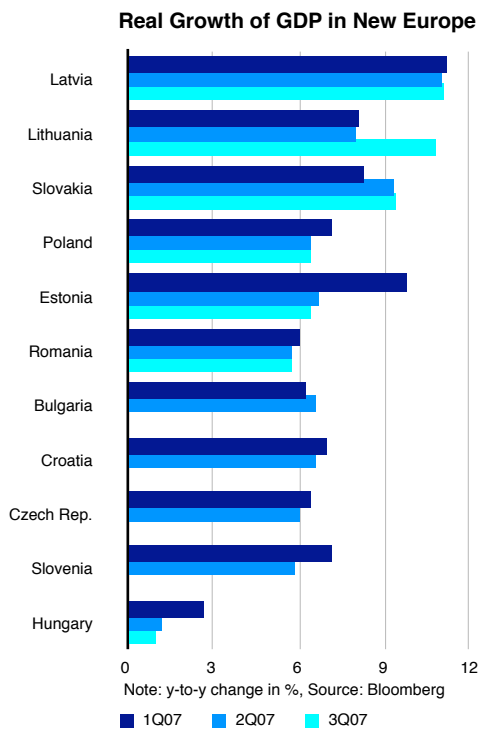
Slovak Economy in Comments and Analyses

Monthly Research Service for the Ministry of Foreign Affairs of the Slovak Republic

Special Focus

'07: Economic Growth Peaking

The Slovak economy continues with record growth, which accelerated up to 9.4% in the third quarter of this year (in real terms) according to the information published by the Statistical Office, and in accordance with its flash estimate released earlier in November. This puts the country to the top three among the EU's 27 members, together with Latvia and Lithuania.



The third-quarter figure significantly exceeded the expectations of analysts that counted with the negative basal effect of the strong last year's third quarter. The positive surprise, however, has to do with a revision of national accounts, which lowered the 3Q 2006 real growth as well as changed the denominator in the GDP index to the average quarter of the previous year.

Most of the growth in the third quarter was pulled, according to the expenditure reporting method, almost equally by the strong increase in (domestic) household consumption and in foreign demand (exports), which indicates that the growth structure is balanced. Sector-wise, industrial production is the major driver, of which the automotive as well as the electronic manufacturing sub-sectors grew the fastest. The healthy state of the Slovak economy is supported also by the profitability of businesses, which increased by 7.8% compared to the average quarterly volume of profits last year.

As a result of the booming economy, the employment continues to grow, and the registered unemployment rate, reported by the Center for Labor, Family and Social Affairs, fell to 7.92% in October. The unemployment measured by the survey method (reported by Eurostat), however, remains the highest in the EU at stable 11.2% in October. Long-term unemployment fell slightly, to still extreme 68.6%. Employment abroad stagnated in the third quarter, since it reached its potential as TREND Analyses predicted in its September TREND Watch.

The gross disposable income and real wages grew only moderately in the third quarter – slower than the increase in the productivity of labor – which means that there are no significant demand-pulled inflation pressures. This clearly rejects the traditional Keynesian expectation of higher inflation in high-growth countries due to expanding household incomes.

The next two years are also expected to bring robust figures of economic growth, although not as rapid as in this year (8.8% – estimate of the Statistical Office). The European Commission increased its 2008 and 2009 forecasts for Slovakia to 7.0% and 6.2% respectively (detailed macroeconomic analysis with predictions of TREND Analyses for 2008 will be published in December TREND Watch).

Since these figures are more than two times higher than the average growth predicted for the whole EU, the living standards in Slovakia expressed in Gross Domestic Product per capita in purchasing power standards should approach three quarters of the EU27 average by the end of the decade (in 2000 only at 50.3%). □

Structure of Real Growth of the Slovak GDP					
(y-to-y, %)	2003	2004	2005	2006	3Q07
Total GDP	4.8	5.2	6.6	8.5	9.4
consumption of households	1.6	4.2	6.5	5.9	8.3
consumption of government	4.2	-2.0	3.5	10.1	2.2
gross fixed capital formation	-2.7	4.8	17.6	8.4	6.5
exports of goods and services	15.9	7.4	13.9	21.0	8.5
imports of goods and services	7.4	8.3	16.1	17.7	3.0

Source: the Statistical Office of the Slovak Republic, revision as of November 2007

Major Legislative Initiatives

Parliament Approved General Law on the Euro Adoption

Slovak Parliament has approved the government draft bill on the Euro adoption in Slovakia, planned at the beginning of 2009. The so-called general law will regulate adoption of Euro in the country, conversions of Korunas into Euros, as well as rules for dual pricing, inspection and supervision. Before the day of Euro introduction, also other legal norms have to be amended. Mostly the law of the National Bank of Slovakia. These will be laws, which will be affected by Euro adoption or which have to be amended to ensure legal security and smooth conversion into Euro.

Not only supervision and control but also sanctions on breaking are ruled in the law. In case of breaking the conversion rules, the official watchdog can order the engaged subject to pay a fine of 1,500 EUR for individuals and 15,000 EUR for organizations. The law comes into effect on January 1st, 2008. Some of paragraphs are to be valid since the date of announcing the conversion exchange rate. Most of the rest clauses will be efficient after the Euro adoption term scheduled at January 1st, 2009.

The Next One in Regulation Trap: Retail Chains

Slovak Government approved the draft bill that is to ban inappropriate conditions in business relations, known as the Law on Retail Chains.

The Cabinet dropped the requirement that the Parliament deals with it urgently, in shortened legislative proceedings. All as a result of the opinion of the Prime Minister Robert Fico, "they make such a huge profit as they do" at the expense of suppliers, that struggle to survive, and consumers, that do not have other choices. And in addition this policy is putting Slovakia's early Euro adoption at risk, PM added. It was rising food prices that most contributed to the inflation increase in recent months.

Moreover, R. Fico declared the margins charged by retail chains were similar to the profits from the illegal activities like trade with people or weapons. It is not hard to guess what the prime minister based his idea regarding extra high margins on. Agricultural enterprises, food suppliers use the same arguments. And list the differences between the prices they charge to retail chains and the prices the same food is sold to customers for. In their point of view the prices are sometimes even 50% higher, or even more.

Real base of these declarations keeps hidden. Some information can be deducted from the business results of retail chains. If deducted the amount paid to suppliers from the income, evidently there is a difference of 15% to 20% of the total revenues. This represents not merely the added value, but also expenditures, mainly on energy. And does not confirm to the theory of excessive margins at retail chains. And in fact of the informal market information, real margins are sometimes lower in average. Even as it differs from item to item, according the sales policy.

Pensions on the Second Shot

President Ivan Gašparovič signed an amendment to the Law on Social Insurance approved by Parliament with corrections following a presidential veto at its earlier session. Parliament has accepted the proposal of the president, who vetoed the original bill, and left in the law the paragraph enabling entry into the second "capitalization" pillar of the pension system during the first half of next year. The deputies then omitted the paragraph proposed by opposition deputy Iveta Radičová that does not enable entry into old-age pension system with exception of young people taking up their first job.

Before the parliamentary vote, however, she pointed out that if the Parliament was to approve the amended draft, opposition deputies would turn up to the Constitutional Court and request a preliminary suspension of the effectiveness of the approved amendment. The amendment contains several unconstitutional paragraphs, for example extension of the minimum saving period for pension eligibility in the second pillar from the current 10 to 15 years, I. Radičová added.

New EU Border with the Ukraine

Since December 21st, 2007, the citizens of Slovakia will be able to cross the borders with all neighboring countries, except for the Ukraine, at any place and without any checks. That is the result of an informal agreement of the EU Council of ministers, assessing the evaluation report on the preparedness of candidate countries for accession to the Schengen area. Though the final decision is to be taken early in December, it is certain that Slovakia will become a member of the enlarged Schengen area before Christmas, along with Slovenia, Lithuania, Poland, Hungary, Estonia, Latvia, the Czech Republic and Malta.

Last year, however, there was no reason for celebrations as the European Commission has announced that the enlargement of the pan-European border-free zone might be postponed to 2009 due to the insufficient preparedness of candidate countries. Slovakia was stated as the worst example. The change over the year in the evaluation of Slovakia's preparedness for Schengen indicates that the efforts of the crisis team were successful.

But it should also be mentioned that the efforts would have had no effect if the old member states of the Schengen zone had not prepared for their new counterparts. As one year ago it was not only Slovakia and the Czech Republic that were behind in their preparations. The preparation for the accession to the Schengen zone cost almost 64 million EUR.

EU Funds Draw

Till the end of October 2007, the Slovak Republic drew a total amount of 24.2 billion

SKK (720 mil EUR) from EU Structural Funds within the first programming period 2004 – 2006, which represents draw down of 54.26% of the total obligation for this programming period in a total amount of 44.7 billion SKK. At the same time country's draw from the Cohesive Fund totaled 9.76 bn SKK, which represents 70.85 % of the total eligible costs of 13.8 bn SKK from the European Community funds.

Prices of Loans to be Regulated by the Government

Some loans are expensive; some people are poor and uneducated. Parliament considered this sufficient reason to call the loans provided to this group of people legal usury and ban them from the initiative of the Ministry of Justice. The administrative line between acceptable and unacceptable loan prices is to be set by a decree of the government to change it whenever, to increase it or decrease it or calculate it in a different way.

The analyses that examine the impact of such a directive intervention on the consumers and the companies providing the loans do not exist and the coalition members in the Parliament do not miss them. The fact that the Ministry of Finance does not agree with such a solution is not considered an obstacle, either. Parliament also got round the fact that the government refused a price ceiling before. It changed it for increasing the transparency of loan provision and raising client awareness. Parliament agreed and added the ceiling. The measure will come into force in January 2008 provided that the Ministry of Finance is able to cope with the uneven formulation of this regulation.

Electricity Auctions Rules

From March 1st, 2008, the rules for auctions for the sale of electricity must be approved by the Regulatory Office for Network Industries (RONI). A draft law amending the Energy Act, approved by the government, also enables electricity suppliers to sell electricity by auction, but only in accordance with the rules approved by RONI.

Slovakia in Macro-economic Statistics							
Indicators	Unit	2004	2005	2006	Recent figures		2007 ^e
Headline inflation (national CPI)	%, dec/dec	5.9	3.7	4.2	3.3 (10.07)	↗	3.1
Harmonized inflation (HICP)	%, dec/dec	5.8	3.9	3.7	1.7 (9.07)	↗	na
Real GDP growth	%, yoy	5.2	6.6	8.5	9.4 (3Q07)	↗	9.0
Rate of unemployment	%, ILO	18.1	16.2	13.3	11.2 (3Q07)	↗	11.1
Central Bank 2-week repo rate	% p.a.	4.00	3.00	4.75	4.25 (since 4.07)	↘	4.25
Trade balance	% GDP	-3.6	-5.0	-4.5	-0.2 (1.-9.07)	↘	-0.7
Current account balance	% GDP	-7.8	-8.5	-7.0	-3.8 (1.-9.07)	↘	-3.6
State budget balance	% GDP	-5.3	-2.3	-1.9	0.3 (1.-11.07)	↘	-2.1
FDI inflow	bn SKK	97.8	75.3	123.8	51.2 (1.-8.07)	↗	na

e - the average estimates according to the survey among banking analysts researched by the National Bank of Slovakia; the rate of unemployment predicted by the Statistical Office, state budget balance according to the Act on 2007 State Budget; na - not available

SOURCE: www.etrend.sk, www.statistics.sk, www.nbs.sk, www.finance.gov.sk, www.ineko.sk

Macro-economic Summary

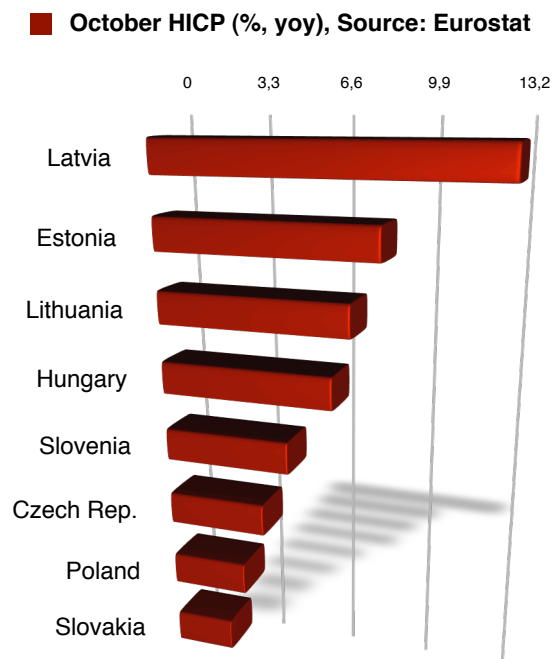
Inflation Continues to Rise on Acceleration of Foodstuff Prices

The national consumer price index accelerated above market expectations to 3.3% in October, which is the highest annual dynamics attained this year. This has to do with a wide and global trend of rising food prices, coupled with domestic increase in costs of housing. The growth of foodstuff prices accelerated to 6.6% compared to October 2006; prices of housing, utilities and fuels grew by 5.8%, due to near-record SKK prices of oil. As a result, and together with expectations of a further price escalation, the consumer confidence index fell in November to its lowest value this year.

The October Harmonized Index of Consumer Prices (HICP), which is the official EU measure of inflation, and does not include imputed rents, accelerated to 2.4% (in Eurozone to 2.6% and 3.0% in November according to the flash estimate). The food and soft drinks prices showed the highest increase also according to this measure. Slovakia, however, continues to fulfill the inflation convergence criterion for a third consecutive month, as the Maastricht limit now lies at 2.6%.

According to the prognosis of the TREND Analyses, the average annual HICP in Slovakia for the period of April 2007 – March 2008, principal for valuation of fulfilling the inflationary criterion, "should reach 2.1 percent. It should be below the Maastricht benchmark with a considerable buffer," said Ján Kovalčík, the chief analyst. He stated,

"that an increase in food prices will rise the inflation dynamic in next months, but will not endanger fulfillment of the inflationary criterion based on average annual figures".



Even though the rate of price rise becomes higher, Slovakia remains to be the country with the lowest inflation among the Central- and Eastern-European EU member states. Price dynamics in the Czech Republic, Hungary, the Baltic states and even in Slovenia, which adopted Euro in 2007, are all higher. Nevertheless, EU Commissioner Joaquín Almunia warned that Slovak inflation might rise to the levels of its neighbors and endanger the

Maastricht convergence criterion crucial for Euro adoption planned for January 2009.

This may be aided by a widespread anxiety about future prices among the Slovak population due to Euro adoption (inflation could work as a self-fulfilling prophecy). The Commission has increased its inflation forecast for Slovakia in 2008 and 2009 to 2.5% and 3.0% respectively. Overall, however, the Commissioner has been positive about Slovak chances of meeting the sustainability of convergence criteria.

Implications for monetary policy are minute; although the HICP is now above the official target (2.0%) and the central bank follows the price rise cautiously. Strong SKK (about 6% stronger than a year ago), however, helps to tame external inflationary pressures, and the next month's price dynamics are expected to be slightly slower than those in October. Moreover, even the next year figures should be on the lower side because the regulated prices of natural gas and electricity (for households) will increase only slightly as of January 2008. The ÚRSO regulator said that the electricity price will go up by 2.86% on average, whereas the gas price will remain unchanged.

The legislative effort of the Prime Minister Robert Fico at curbing foodstuff inflation through his new retail chain regulation, however, might plausibly work contrary to its intentions, since the bill, already passed by the Parliament, attempts to weaken the market power of super- and hypermarkets by, among others, forbidding them to demand discounts from their suppliers. The monetary authority thus left the 2-week interest rate unchanged for seventh consecutive month at 4.25%, primarily because the current price rise is caused by global rather than local demand factors. Moreover, the TREND Analyses estimates, that the National Bank will cut its key rate by 25 basis points in the first half of 2008 to synchronize with the European Central Bank.

Trade Deficit Vanishing

The balance of Slovak foreign trade surprised on the positive side in September. All analysts have predicted a deficit. The official figures, however, revealed a trade surplus, when exports have exceeded imports for the first

time since April 2007. This was caused by imports falling unexpectedly year-on-year for the first time since early 2003, despite high oil prices. Exports grew by 7.3%, not only thanks to the traditionally strong output of automotive sector but also because of robust growth in electronic manufacturing exports. Moreover, imports have been revised downwards for several previous months, and the cumulative 9-month trade shortfall now amounts to 2.7 billion SKK only (81 million Euros). This constitutes just 0.2% of GDP, which is the lowest rate since 1995. The end-year shortfall can thus be expected below 1% of GDP. The current account deficit, as a result, narrowed to 51.3 billion SKK (3.8% of GDP) in September.

Industrial Production back in the Fast Lane

Industrial production returned to swift growth since the holiday break, when it grew by 15.4% in September. Production of vehicles returned to high pace, being by a half greater than a year ago. Production of the two new plants of PSA Peugeot Citroen and Kia Motors should reach more than 300,000 vehicles this year compared to only 70,000 cars last year. In addition, the Volkswagen plant, which operates in Slovakia since the early 90's, has increased the ratio of high-value-added SUV-class vehicles in its portfolio.

Even the non-automotive production increased by pleasing 11.4% year-on-year, in particular thanks to the booming electrical and optical equipment manufacturing. Production of LCD TV sets and monitors in Samsung and Sony plants is expected to increase by about a half, to some seven million units. The two-year cumulative industrial growth thus remains around the record 25 percent.

Public Finance Held in Check

Slovak public expenses are under tight control as the country aims to adopt Euro in next year. As a candidate for the single European currency, it needs to fulfill the Maastricht convergence criteria, one of which requires a public finance deficit not exceeding 3.0% of GDP. The 2007 shortfall was budgeted at 2.94%, which requires from the government to stress strongly and repeatedly that the maximum will not be overstepped.

In fact, the Cabinet approved a new consolidating Convergence Program for years 2008 – 2010, mandatory according to the Stability and Growth Pact of the EU, which counts with decreasing the public finance deficit to 0.8% of GDP by 2010. In addition, the Prime Minister Robert Fico wants a completely balanced budget (including costs of pension reform) by 2011. The 2008 State Budget Bill, planning with fiscal deficit at 2.3% of GDP, has been passed by the Parliament in the beginning of December, appeasing the financial markets after the November coalition crisis.

The effort of the government to save is clearly visible also in the low figures for intermediary consumption of public administration confirmed by the Statistical Office. The state budget, according to the Ministry of Finance, ended up in a 5.45 billion SKK (164 mil EUR) surplus in November, which is a considerably better result than last year, when elections were held. However, the monthly state budget levels are not very telling as the most important month regarding the state budget balance is traditionally December. Yet, after eleven months of this year, more than nine tenths of the budgeted central government revenues were collected, whereas only slightly more than eight tenths of the planned expenses were spent. □

Key Investment Proposals

ArcelorMittal Acquires OFZ



The world's number one steel producer *ArcelorMittal* acquired Slovak ferroalloy manufacturer *OFZ Istebné*, which will strengthen its ferroalloy supply portfolio. The price of the deal has not been disclosed. The decision comes after *ArcelorMittal*'s recent announcement to develop South African manganese resources. Already the largest consumer of manganese in Europe, the metallurgical giant is "looking forward to integrating the OFZ operations into the *ArcelorMittal* group," its CFO said. *OFZ Istebné*, located in the north of Slovakia – close to *Arcelor*'s Czech and Polish mills, is involved in the production of ferroalloys on the

basis of manganese and silicon, which are used as inputs in the production of steel. With production of 141,000 tons of ferroalloys in 2006, its sales amounted to 3.55 billion SKK (107 mil EUR).

Volkswagen to Invest 300 Million Euros in Slovakia by 2010

As a part of the global investment plan, *Volkswagen* will invest 9.5 billion Euros in coming three years. From that amount 6.5 billion Euros will be invested in new products. Some 1.7 bn EUR are earmarked for new production structures, such as new plants in Russia and India. The largest European carmaker intends to announce massive investment also in its Slovak subsidiary. Almost 300 million Euros is scheduled for *Volkswagen Slovakia*, of which 184 mil EUR will be spent on vehicles.

In 2008, a significant amount of the money is to be invested in the production of *Škoda Octavia* in the Capital City of Bratislava plant. The assembly starts in the first quarter of 2008, replacing *VW Polo* in its product portfolio. In the early phase the car bodies for *Octavia* will be imported from the main body shop of *Škoda Auto* in *Mladá Boleslav*, the Czech Republic.

During that time *Polo* bodies would be exported to the *VW Brussels* plant, specialized on the small car segment. Since all the necessary changes are completed in the body shop, even the *Octavia* bodies will be produced in Bratislava. In the following years, also *Audi Q7* facelift and the next generation of *VW Touareg* and *Porsche Cayenne* (cabin production) would be the investment target in *Volkswagen Slovakia*.

Even the *City of Martin* plant, producing transmission components will receive capital for its expansion. The rest of 120 mil EUR would be used for non-producing projects, such as power and energy system, logistics and the social program of *Volkswagen Slovakia*.

A New Wood-Processing Facility of Feldbacher

Austrian company *Feldbacher* is considering to build up a new wood-processing factory in Slovakia. Project with expected amount of investment around one billion SKK (30 mil

EUR) includes combined heat and electricity generator combusting biomass. That would create 150 new jobs.

During 2008 a new sawmill should be built up for 350 million SKK. In the year 2009, new investment into the next timber processing is to follow. The facility should produce large format wood-sandwich panels for the furniture production. The final target for the next four to five years is to produce wood-assembled houses.

Apart from the core wood-processing business, also a new power plant should become a part of the investment project. The energy unit should combust the factory's own wooden drop out. The energy produced is to cover not only the factory's production needs, but Feldbacher also plans to sell it to households and corporates in the region.

The final selection of the site has not been completed, yet. The company is in negotiation with several municipalities. The furthest progress has been reached in the City of Levoča (Eastern Slovakia). The company has already signed a pre-purchasing contract for a 10-hectare area in the new Levoča industrial park. The final contract with the municipality depends on the price agreement.

The selected locality would receive another investment project, too. Co-operating engineering factory is to produce wood-processing and forestry equipment nearby the Feldbacher plant. That project would create another 150 new jobs.

Continental to Enlarge Tire Production in Púchov

German giant *Continental* has recently announced a plan to expand its passenger car tires production plant Continental Matador Rubber (located in the City of Púchov, the Northwest of Slovakia), operating a former Matador capacities acquired by Continental in early 2007. The German company holds 51 percent stake in the recently established company.

Continental Matador Rubber should invest one billion of SKK (30 mil EUR) into the new distribution warehouse facility for the East-European market. At the same time, the company is also to enlarge its annual production from 5.5 million to seven million

tires, which should require to spend another one billion SKK.

Yet, there is one more huge development plan in the strategic visions of the investor. That is a greenfield tire producing facility with annual capacity of nine million tires. With potential of 16 million tire annual capacity, Púchov would become an important production base in the Continental structure. Germans notice that the further investment depends on the local wage increase and incentives provided by the Slovak government.

Passenger car tires production is to be extended after the ten years of expansion investments of Continental in truck tire production acquired from the Matador earlier. Not only production should be among the Púchov based operations. Continental also plans to build up a research and development center and a testing facility.

Rova to Build Up its New Factory in Levoča

The steel-sheet-roof tiles producer *Rova-SK*, nowadays located in the City of Spišská Nová Ves (Eastern Slovakia), plans to move the whole facility to the neighboring City of Levoča. The company will build up a greenfield factory in the new Levoča industrial park. Reason to change the location is that there are no expansion capabilities in the current area in Spišská Nová Ves.

The company is to start the construction in May next year. The beginning of the production is scheduled to the following year. In the new facility, Rova plans to implement completely new production portfolio based on sandwich-roof tiles. Then its production lines would be moved from Spišská Nová Ves into the new factory. Rova-SK is to raise the current number of 70 employees up to 150 people in the new location.

Lime Supplier to Modernize its Power Supply System

Belgian *Carmouse* is going to spend 120 to 160 million SKK (3.5 – 4.7 mil EUR) on its lime kiln power supply system located in the City of Košice (Eastern Slovakia). Its current boilers, operated in the production of lime, supplied to the steelworks of U.S. Steel, will be rebuilt to combust the more diversified fuels. By now, only a natural and a carbon gas could have

been used. After the modernization is completed, even the black coal, lignite and waste materials will be useful for combustion.

The change in the production of the subsidiary is a result of permanent growth in global gas prices. Otherwise, expenditures on the gas purchases would become a significant cost burden and a comparative disadvantage. Carmouse has acquired the lime kiln six years ago. With 75 employees its annual production was 450 thousand tons of lime in 2006, some 90 percent of it supplied to U.S. Steel, the rest to the construction industry. For coming years, the expansion to the annual production of 650 thousand tons is in the company's plans.

Penta to Build Up Another Cogeneration Power Plant

Private equity group *Penta* has acquired the cogeneration company *Paroplynový cyklus*, a.s., Bratislava several years ago in privatization from the National Property Fund. Now, it plans to invest 1.1 billion SKK (33 mil EUR) in another cogeneration power plant to produce heat and electricity with installed power of 58 MWe. The new power plant is to provide the electricity network of the *Západoslovenská energetika (ZSE)* distribution company with annual capacity of roughly 400 thousand MWh.

The new energy facility should be built up in 2009 by the *Penta* subsidiary focused on energy operations *PPC Energy*. That will be a new energy holding within its structure. Technically, the combustion fuel is still in consideration. The first option is the natural gas, just as in the case of the first cogeneration unit. The alternative is the light heating oils. If natural gas is chosen, the annual consumption should reach 110 million m³. Were the oils combusted, the unit would need more than 90 thousand tons of them.

J. L. French to Erect Plant in the Kechnec Industrial Park

The village of Kechnec (Eastern Slovakia) has received another investor in its industrial park. American-Spanish *J. L. French*, the aluminum casting producer for the automotive industry, plans to build up a new factory in the industrial zone. Investment of roughly one billion SKK (30 mil EUR) should create 200 new jobs. *J. L. French* is a supplier to another large company,

already operating in the Kechnec industrial park – the German clutch transmission producer *Getrag Ford Transmissions*. The new *J. L. French* factory is to supply *Getrag* with aluminum cast produced in Kechnec.

The Largest Slovak Mill Going to Expand

The largest and the most modern mill in Slovakia, operated by company *Vitaflóra*, prepares its expansion. *Vitaflóra*, owned by a local entrepreneur *Tibor Varga*, has been operating for 12 years, as he had built it up in the City of Kolárovo (Southern Slovakia). The owner intends to spend some 320 million SKK (9.6 mil EUR) on new mill technologies. Currently, the facility processes some 100 thousand tons of wheat and rye, producing 80 thousand tons of flour. The expanded capacity is to produce 120 to 140 thousand tons of flour by processing 150 to 180 thousand tons of grain.

The production expansion follows the European trends in mill companies' strategy – building up processing capabilities for 750 to 1,000 tons of grain a day. Even the Kolárovo-based mill should reach such production scale after the expansion. At the same time, *T. Varga* plans to invest in new warehouse capabilities. Currently it counts some 70 thousand tons of grain. After the new warehouses is built up, the improved storage capabilities would grow to 100 thousand tons.

Power Plant in Zvolen to Use a Heating Steam of Zvolenská teplárenská

The City of Zvolen (Central Slovakia) has got a chance to increase its electricity production. Its power plant should have a turbine with 75 MWe installed power, using the heating steam of the *Zvolenská teplárenská* heating company. That is also why a turbine should be built up in the area of the state controlled *Zvolenská teplárenská*. The investment is forecasted to reach 1.1 billion SKK (33 mil EUR). The project is currently in the preparatory phase and almost no exact parameters have been decided. Only some voices from the project company *Zvolenská ekologická spoločnosť* guess that the construction should start in 2009. Even the municipality of Zvolen, the distributing company *Stredoslovenská energetika* and

A.En. Slovensko Ltd. are involved in the project.

Another Supplier Follows Sony to Nitra

Another subcontractor of the Japanese electronic giant *Sony* is to be located in the Nitra Sever industrial park. That will be the Spanish company *Farguell* producing metal skeletons for the production of Sony LCD TVs. Newly established subsidiary *Farguell Nitra Ltd.* has already signed a contract for the purchase of land with a total area of 1.2 hectare. In the first phase, during 2008, the investment expenditures will total 150 to 190 mil SKK (4.5 to 5.7 mil EUR) and the company will employ some 50 people. The total area of the production hall is three thousand square meters. Later, the expansion is planned to employ additional 150 people. □

Corporate Headlines



The Second Model from the PSA Trnava Next Year

A new model, extending the portfolio of the *PSA*

Peugeot Citroën factory based in the City of Trnava (Western Slovakia) is to come in testing production during 2008. A full output should be reached in the following two years. Currently, the plant is assembling Peugeot 207. However, even though there has not yet been any official launch of the second type, it is expected to be the new Citroën on the same small car platform as P207, but with a different design and probably also with a different body type – a bit larger. Unlike the P207, the new model is to be launched in the production originally in Trnava. That would also bring some new opportunities to the local component suppliers.

Regional HQ and Design of Johnson Controls

Johnson Controls, one of the international leaders in the production of automotive interiors and electronic systems, opened its Automotive Business Center in the Capital City

of Bratislava. More interestingly, the company will make Slovakia its home country and center for the Central and Eastern Europe. *Johnson Controls* produces in Slovakia not only interiors and seats, employing about 3,300 people, but has been undertaking development here for three years. And now it starts to manage production and sales from Bratislava.

At the beginning of next year, a designer studio will be opened in the development center in the City of Trenčín. The biggest supplier on the Slovak automotive market has five production and assembling plants in Slovakia, a technological center and less than a week ago it opened a regional center for sales and corporate administration. The company is extending its local activities gradually in accordance with the requirements of customers – automotive factories. These no longer focus their demand on production. They want their suppliers to cooperate on innovations which they want to use to attract drivers and obtain a competitive advantage.

Dutch Ahold Stays on the Slovak Retail Market

In 2006, the Dutch retail chain *Ahold* announced to sell its stores of *Hypernova* and *Albert* brands. Eventually, the chain has recently decided to stay in Slovakia. This year positive results of the local subsidiary *Ahold Retail Slovakia* and predictions of further improvement are said to be the reason. *Ahold* stepped in the Slovak market in 2001. Currently, it operates 22 hypermarkets branded *Hypernova* and three supermarkets of its second brand *Albert*.

Dual Clutch Transmissions "Made in Kechnec"

Getrag Ford Transmissions Slovakia has opened its new transmission production plant in the Kechnec industrial park (Eastern Slovakia). It will be the first factory of the international transmissions manufacturer, where the dual clutch transmissions using the new technology of *Getrag* – "PowerShift" is going to be produced. The *Getrag* Corporate Group plans to launch the new transmission in the early 2008.

The dual clutch *PowerShift* will be the most up-to-date automatic transmission in *Getrag's*

portfolio. Getrag Ford has invested 300 million EUR in the factory employing 450 people. By 2010 there are 350 new jobs to be created. "As the launch of the PowerShift is an important business point, step into the automatic transmissions market is a milestone for Getrag," executive director Mihir Kotecha stated. The company has already been receiving orders; till 2014 there is a sales plan for a production of two million units.

Kechnec-based factory is one of the four production facilities of Getrag Ford; apart from its German base plant in Cologne, they are also in French Bordeaux and UK Halewood. By 2010 there is to be 220 thousand PowerShifts produced annually. The Slovak subsidiary is also producing motorbike transmissions and there are three to four suppliers considering to locate production in Slovakia.

1.5 Billion SKK for the Spruce Forests Recovery

The Slovak government has approved a plan to save the poor conditioned spruce forests in the country. The forests of this kind cover 26 percent of the cultivated area in Slovakia. During the coming three years the engaged organizations will be given a subsidy of 1.5 billion SKK (45 million Euros) to realize the necessary maintenance. Half of the amount is to be covered by the state budget, the rest will be financed from the European Union funds.

Current condition of the cultivated spruce forests, an important basic input for the local wood-processing industry, has been continuously worsening in last years. Apart from the negative affect of the industry emissions and the climate changes also wood damaging insects attacks are coming as a permanent threat. According to the government and the state controlled forest property administrating enterprise *Lesy SR* it is a result of the environmental NGOs activities after the 2004 gale calamity. The foresters criticize keeping the affected wood in the original areas, while such a wood has become the base for the unexpected over-reproduction of the damaging insects.

Therefore the foresters want to spend the government subsidy to the fastest exploitation of the affected areas as possible. The less stable homogeneous spruce forests are to be

replaced with the more resistant mixed forest. On the most affected areas even the chemical treatment will be used. In some of the areas, a permission the environmental bodies allowance will be needed. But, the environmental organizations stand on their attitude of preventing the most precious areas of forests from the usage of chemicals.

Chemes Acquired by Slavia Capital

Slovak private investment group *Slavia Capital* expands its energy and power supply business. After it has bought the energy division of the bankrupted engineering company Vihorlat Snina few years ago, it announced a new acquisition. By acquiring 100 percent of the management-employees controlled company Novachem it became owner of the eastern Slovakian energy producer *Chemes*, based in the City of Humenné.

The company with 450 employees produces energy with annual sales of more than one billion SKK (30 mil EUR), combusting coal imported from Ukraine and Russia. After Slavia stepped into the enterprise, the further investments in combustion of biomass can be expected. The same pattern was applied in Energy Snina. Chemes supplies energy to several companies in the area of its own and also to the Humenné industrial park Guttmanovo.

In Chemes 64-hectare area, there are nine subsidiaries of international companies, employing 3,500 people in the total. Most of them are textile and synthetic fiber producers and its further processors, just as metal-processing production. Slavia Capital announced a plan to continue attracting industrial companies to place their facilities in both areas. The next business issue is the energy supply for the City of Humenné.

Gas Utility SPP to Rebrand its Transmission Subsidiary

Slovak gas utility giant *Slovenský plynárenský priemysel* (SPP) announced that it will rebrand its gas transmission subsidiary *SPP – Preprava* to the more internationally perceived brand *Eustream*. The company's chairman Andreas Reu explained the change by a weak marketing performance of the original name and a strong need to take certain position in

international competition. Following the trends in the transmission business, the company must take more attention to marketing activities, A. Reu stated.

There is another need – to differentiate from the parent company after fulfilling the European Commission request for legal unbundling – separating the transmission activities from the gas utility. SPP – Preprava currently belongs to the strongest players in the transmission of the Russian natural gas to the Western Europe. One fifth of the total western consumption passes through its pipes. Transport capacities of the company's transmission network are 90 billion cubic meters. Last year transport volume has reached 73.8 billion m³, as a result of 7.5 billion annual decline. According to the current predictions of the company, this year will be about the same, transmissions are to amount to 70 – 75 billion cubic meters of gas. Early this year it seemed to be weaker, but the November daily transmission attacks the capacity limits. During the last 35 year period of the Slovak transmission network 1.9 trillion cubic meters passed through its gas pipes.

The future will probably bring another decline in transmission, significantly affected after the new gas pipeline Nord Stream will start to operate. From 2012 transit to the Czech Republic (direction west) is predicted to decline by 10 billion cubic meters. Even though there are no exact figures on the Nord Stream transmission capacities, SPP – Preprava could lose some of its customers, accessible by the new pipeline. On the other hand, importance of the Slovak transit to Austria, part of the southern Germany, Italy and France is expected to grow.

First Minor Shareholders Squeeze-Out in the Market

Since the new legislative came into effect on January 1st, 2007, the very first squeeze-out of the minor shareholders is to take part in Slovakia. The very first company to practice the whole procedure is going to be *Dopravoprojekt Bratislava*. Just recently the public bid has expired on the Bratislava Stock Exchange. The bidder, the major shareholder of the company, Dutch Sudop International, wasn't successful. With a price bid of 6,420

SKK per share it has only bought 19 shares, increasing its share by 0.03 pt to 96.3 percent.

As Sudop owns more than 95 percent share of stock, it has to initiate a public bid. Now, minor shareholders, controlling the total of 3.3 percent share, are to be offered by an officially set price. The authorized person to set the price would be chosen by the National Bank of Slovakia. If Sudop succeeded in the public bid in 90 percent of the minor shareholders, it could apply the same price as in the bid. This year squeeze-out rules bound the authorized person to set the price by the two valuation methods. Special pricing edict is only in the process of preparation.

Sudop has recently published an advertisement saying it is going to use its right to squeeze out the minor shareholders. Due to the valid legislation, the bidder has to address the engaged shareholders with the letter of appeal including all the necessary information. According to that procedure, the minor shareholders are obliged to sign the selling contract.

The very first case will show how flexible the squeeze-out institution is. A number of companies with many minor shareholders declared the fear of the long-lasting official procedure. If the shareholders refuse to sell their stock, major shareholder should go into the lawsuit with each of them separately. And they can avoid of it by permanent selling to the other persons.

For example, in the Czech Republic, where quite many of the squeeze-outs have already taken place, the transaction is started only by the shareholders meeting approval. The appeal and purchase of the shares is only a formal closing operation. The model that Slovakia established, brings stronger position to minor shareholders, as it says the transaction is not completed unless they sell their sales.

Official Start of CEPIT

Within the coming eight to ten years, the *Central European Park for Innovative Technologies* (CEPIT) is to be built in the Capital City of Bratislava (district of Vajnory). Project that is said to create seven thousand jobs and house around 3 thousand inhabitants has officially been started. A Memorandum of Understanding and Cooperation on this project

was signed between the Bratislava City Mayor Andrej Ďurkovský, the Mayor of Vajnory Ján Mrva and the statutory representative of the German CEPIT Holding Axel Albrecht.

The greenfield project of the technology park is going to be realized with initial investment of roughly 100 million EUR by the CEPIT Holding in the beginning – the constructing phase is scheduled for three to four years.

According to the project, primarily the innovative companies are to be present in the area. The idea of CEPIT Holding is to establish the park as a base of the technology cluster, including the research and development infrastructure. Not only commercial but scientific organizations too are planned to be seated there; there are even talks about the Slovak Academy of Science. Moreover, the academic sphere should be taking parts. Among the projects issues there is also an institution of the college or university kind. □

Financials

More than 10 Bidders for Istrobanka

Austrian *Bawag PSK Bank*, which is selling its Czech and Slovak units (see October TREND Watch), has registered more than 10 investors showing interest in buying the divisions. The company's officials notified that the bidders were mostly Western-European financial institutions. Austrian daily *WirtschaftsBlatt* has reported that German Bayerische Landesbank is one of the suitors. The Bavarian bank is not yet present in Slovakia – hence, the acquisition might be a good move. The Czech media speculated about Austrian Raiffeisen, British HSBC or French AXA as the other potential buyers. The set of bidders may include also Slovak financial group Istrokapitál. The Slovak *Istrobanka* group, which is for sale, includes three daughter companies – Istro Asset Management, Istroleasing and Istro Recovery.

mBank Started Opening its First Accounts

BRE Bank SA, the Polish unit of the German *Commerzbank AG*, has opened its first outlets around Slovakia and the Czech Republic under the name 'mBank'. The bank aims to invest 29 mil EUR in the two countries by 2012

in hope to gain about 250,000 clients, and expects the investment to be returned by 2012. By 2010, it intends to acquire 300 million Euros in deposits and sell 1.2 billion Euros of loans in the two countries. mBank has attracted its first clients in particular thanks to its "zero-fee" campaign – that is, zero fees for account opening and maintenance, or wire transfers via internet banking and cash withdrawals not only from foreign but even from domestic ATMs (the first three in a month).

Nevertheless, the start of the new bank was accompanied by several disappointments. Some customers complained



that their debit cards (Visa Classic) took too long to issue and deliver, since the first clients are going to receive their cards in the second half of December. This problem was caused by mBank outsourcing its card issuing, and not providing any cash transactions. To get cash from ATM, therefore, its clients need to transfer their funds to an account in a different bank. Some problems were registered also in the bank's software system, which prolonged the average period it took to serve a client in the first few days.

PČRB to Open its First Slovak Branch

Prvá česko-ruská banka (The First Czech-Russian Bank, PČRB) will expand into Slovakia, its officials said at the beginning of December 2007. PČRB is number 47 among Russian banks according to the capital stock. Its assets reached 512 mil EUR at the beginning of November. The bank provides financial services concerned primarily with trade between Russia and the countries of the Central and Eastern Europe. In the future, it aims to focus also on consulting services for small- and medium-sized enterprises.

Moody's Upgrades Rating of B.O.F. Leasing

International rating company Moody's Investor Service has upgraded the long-term National Scale Rating (NSR) of the *B.O.F. Leasing* from "Baa1.sk" to "A1.sk" at the beginning of December, with stable outlook. This change comes after B.O.F. was bought by Všeobecná úverová banka (VÚB; number three among

November 2007

Slovak banks), member of Italian Intesa SanPaolo group (see July TREND Watch). The upgrade is based on Moody's view that the probability that VÚB will support B.O.F. in case of need is very high. The leasing company is further expected to benefit from easier access to funding as well as VÚB's

customer base. B.O.F. was established in 1991 as the first leasing company in Slovakia. Currently, it is the 6th largest Slovak leasing firm with total assets of 163 mil EUR (end of 2006).

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