

INVESTMENT INCENTIVES FOR THE MANUFACTURING SECTOR IN THE CZECH REPUBLIC

Based on Act No. 72/2000 Coll., on Investment Incentives, as amended, valid as of July 2, 2007.

TYPES OF INCENTIVES

- Corporate income-tax relief
- Job-creation grants
- Training and retraining grants
- Transfer of land with infrastructure at a discount
- Transfer of land owned by the Czech state at a discount

TAX RELIEF

- The current corporate income-tax rate in the Czech Republic is **19%**.
 - Tax relief is provided up to the state-aid ceiling (see map on page 3) after the **deduction** of tangible job-creation aid and the difference between the market price and the purchase price of land.
 - Duration of corporate income tax relief:
 - **full** corporate tax relief for **up to 5 years** (new legal entity), only up to the utilised
 - **partial** corporate tax relief for **up to 5 years** (existing legal entity).
- } amount of state aid (see map on page 3)
- Tax relief may be applied only **after fulfilment of the criteria** for receiving investment incentives (see conditions for qualification).

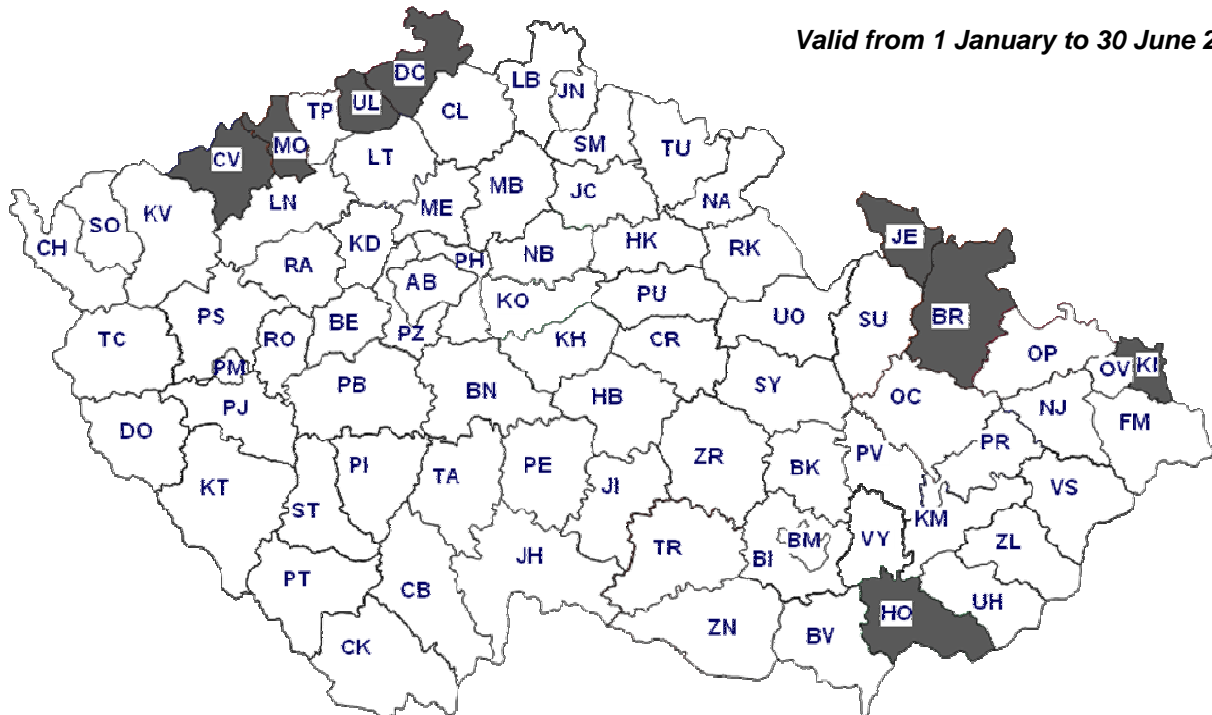
JOB-CREATION GRANTS AND TRAINING AND RETRAINING GRANTS

The Czech government's incentives package contains two employment-related benefits:

- Job-creation grants
- Training and retraining grants

Job-creation and retraining grants by region

Type of region	Grant per each new job	Training and retraining grants
A	CZK 50,000 (app. EUR 2,000)	25% / 35% / 45% large / medium / small
B, C	None	None



Valid from 1 January to 30 June 2012

Grants can be paid in accordance with an agreement concluded between the Ministry of Labour and Social Affairs and the investor on the basis of a decision on the grant of investment incentives. Grants usually relate to the creation of new jobs and training costs expended in the first three years of the project.

AID IN THE FORM OF PROVISION OF PREPARED LAND AT A DISCOUNT

The preferential transfer of land or land with infrastructure owned by the state or its organisational bodies (most commonly the Czech Land Fund) or municipalities is possible depending on the landowner's agreement with such preferential transfer.

STATE AID

State aid includes tax incentives, job-creation grants and, in the case of the transfer of land at a favourable price, the difference between the purchase price and the market price of the land.

Training and retraining grants do not count towards maximum state aid and have their own maximum amounts.

Regional map of state aid in the CR – maximum state aid¹

Region	State aid	Supplement
Prague	0 %	
South-west	30 %	
Other regions	40 %	



¹ The maximum state aid intensity for investment projects in which eligible costs do not exceed EUR 50 million is increased by 20% in the case of small enterprises and by 10% in the case of medium-sized enterprises.

The maximum state aid intensity for investment projects in which eligible costs exceed EUR 50 million is stipulated by the Regional Support Guidelines 2007-2013.

The maximum state aid intensity for an investment project implemented to a predominant extent in an industry that does not fall under code **DG**, **DK**, **DL** or **DM** of the branch classification of economic activities, amounts to 75% of the amount of maximum state aid intensity in the individual regions of cohesion of the Czech Republic pursuant to this Order.

Maximum state aid intensity according to NACE specification of industry	
100 % of maximum state aid	75 % of maximum state aid intensity
DG - Chemical and pharmaceutical	DA - Food and tobacco
DK - Manufacture of machinery and equipment	DB, DC - Textile, clothing and leather
DL - Manufacture of electrical and optical equipment	DD - Wood-processing
DM - Manufacture of transport equipment	DE - Paper and printing, publishing activities
	DF - Manufacture of coke, refining of petroleum, manufacture of nuclear fuel, radioactive elements and compounds
	DH - Rubber and plastic
	DI - Glass ceramics, porcelain and building material
	DJ - Manufacture of metals
	DN - Other industries

Example: Comparison of two different locations for the project

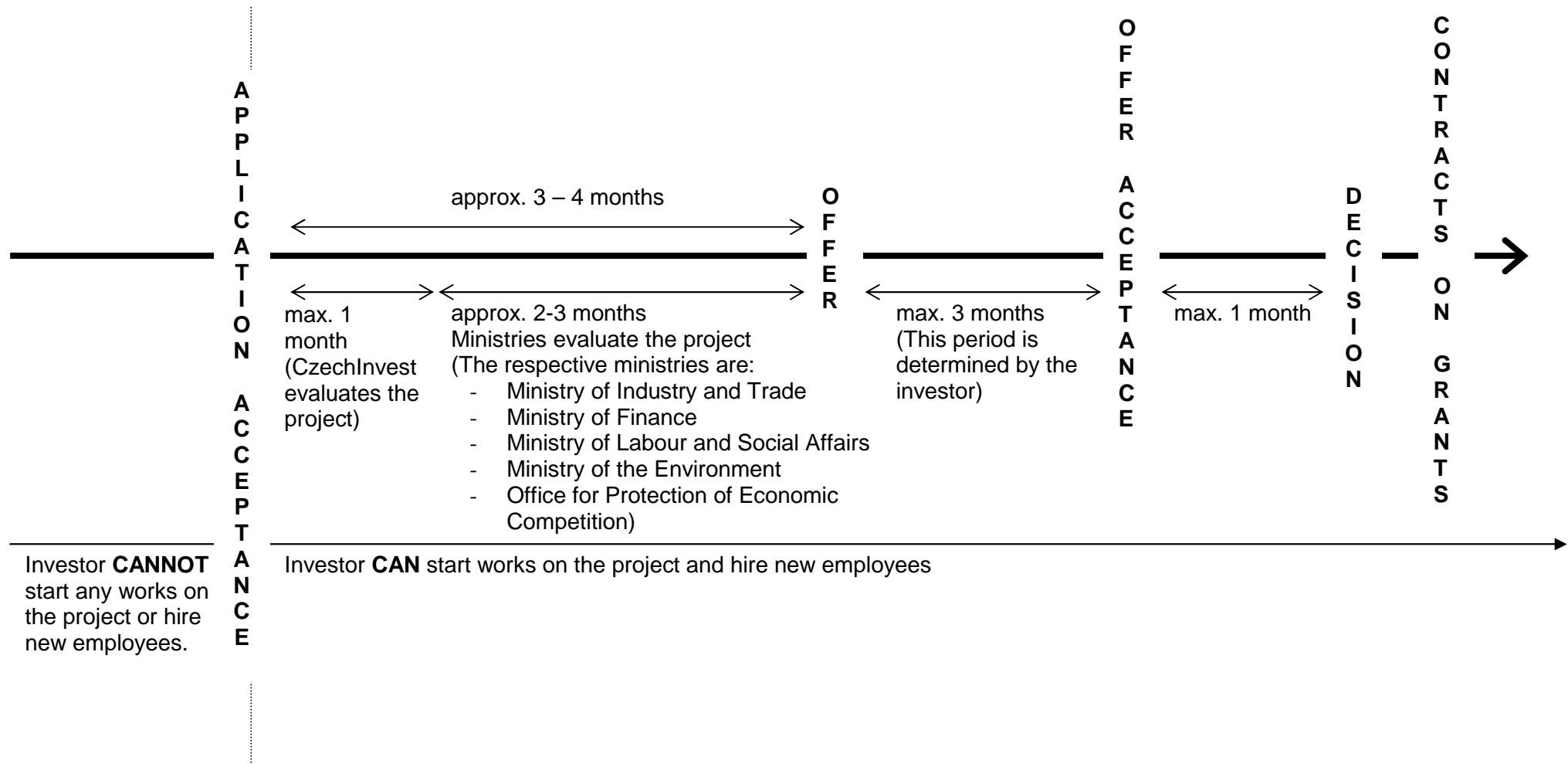
Assumption (in CZK million)		
Location	Hodonín	Brno – city
Intensity of state aid	40%	40%
Type of region (A, B, C)	A	C
Investment	300	300
New jobs	400	400
Training and retraining costs	25	25

Calculation of incentives		
Maximum aid amount (1 + 2 + 3)	120	120
1) Job-creation grants	20	0
2) Land at a favourable price*	6	6
3) Tax relief	94	114
+ Training and re-training grants	6.25	0
Total incentives package	126.25	120

* the difference between the market price and the purchase price of land

APPLYING FOR INCENTIVES

All investors are required to submit their applications through CzechInvest

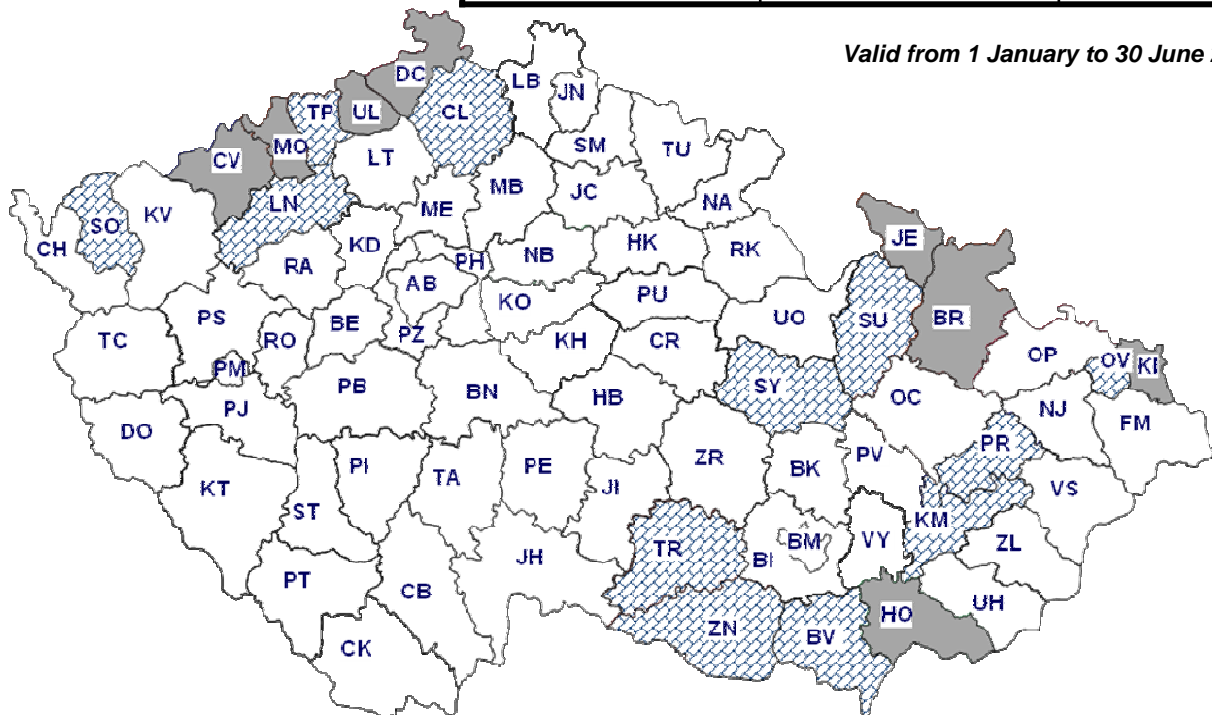


ELIGIBILITY CRITERIA

A: GENERAL CRITERIA:

- Launch of **new production or expansion** of an existing one
- **Minimum investment** into long-term tangible and intangible assets (except leasing) – CZK **50 mil.** (A), CZK **60 mil.** (B), CZK **100 mil.** (C)

A	B	C
CZK 50 mil. (app. EUR 2 mil.)	CZK 60 mil. (app. EUR 2.4 mil.)	CZK 100 mil. (app. EUR 4 mil.)



Valid from 1 January to 30 June 2012

- At least **half** of the above amounts shall be covered by the **equity** of the investor
- A minimum of **60%** of the total investment shall be made into **machinery**
- Machinery must be **new**
- The above-mentioned conditions must be fulfilled within **3 years** from the date incentives are granted

B: OTHER CRITERIA:

- The recipient of incentives **may not begin work** on the project before the issuance of the “Confirmation of Project Registration” by CzechInvest
- The incentives recipient shall **keep the investment for at least 5 years** from the date of fulfilment of the general criteria
- The recipient of job-creation grants shall **keep the number of newly created jobs for at least 5 years** from the date the grants are first claimed
- Production **shall be environmentally friendly**