KPMG

Central and Eastern European Country Snapshots

2005

KPMG IN
CENTRAL & EASTERN EUROPE

AUDIT ▪ TAX ▪ ADVISORY

We turn knowledge
into value for the benefit
of our clients, our people,
and the capital markets

KPMG in Central & Eastern Europe

Through a worldwide network of member firms, KPMG offers clients the benefits of a global pool of skilled and experienced professionals who possess an intimate understanding of each of their national markets.

Wherever our member firms do business our clients are offered customized advisory services based on our familiarity with the people, countries and economic conditions of the region because we believe that consideration of national characteristics is the key to any successful business venture, and we know that local developments must be seen in a larger, global context in order to think in strategic dimensions.

KPMG in Central and Eastern Europe (CEE) continues to build upon its success in the region with 2,600 staff working in 16 countries. To meet the needs of international and regional clients our offices in CEE work closely together. Shared centers of excellence and infrastructure help to ensure a high level of client service throughout the region.

We have compiled this brochure - a series of economic “snapshots” - to help you get acquainted with the intriguing investment opportunities that continue to emerge in CEE.

We remain committed to facilitating the future growth of our member firms' clients in the high potential markets of Central and Eastern Europe.

KPMG services include:

Audit

- Financial Statement Audit
- Statutory Audit
- Audit Related Services
- Internal Audit

Tax

- International Corporate Tax
- Business Tax
- Personal Tax
- Indirect Tax
- Legal Services

Advisory

Financial Advisory Services

- Corporate Finance
- Corporate Recovery
- Forensic
- Transaction Services

Risk Advisory Services

- Information Risk Management
- Performance Management
- Regulatory & Compliance Services
- Financial Risk Management
- Accounting Advisory Services

Albania

KPMG in Albania is located in Tirana and was founded in 1996. It has 45 employees, including one Australian expatriate.

Investment incentives

A fiscal package included in Albania's 2005 budget promises to bring the country's business practices closer to those of its Balkan neighbors to make it more competitive; reductions in tax rates are also likely.

International Funding

Over the last 15 years the World Bank has invested over EUR 438.89 million in 53 different projects in Albania, 20 of which are still active. These include investments in the energy sector, infrastructure, transportation, agriculture, public administration, and legal and judicial reforms. The World Bank, EBRD and European Investment Bank are all contributing to a EUR 143 million project for developing a major thermal power generating station, Albania's first.

Growth industries

- Construction sector, infrastructural projects
- Tourism
- Textile, footwear, produce exports
- Banking
- Retail
- Oil & Gas
- Insurance

Risks/Political stability

Albania would like to sustain an annual growth rate of 6% according to Prime Minister Fatos Nano. The country has reduced its current account deficit, its exchange rate is stable, and interest rates have gone down. Inflation is at its lowest level since the beginning of the economic transition. It should settle somewhere between 2-4%. FDI has recently nearly doubled in Albania, reaching EUR 270.6 million in 2004. Minister of Economy Anastas Angjeli predicted the country will attract over EUR 428 million this year.

Some say corruption is Albania's biggest obstacle to attracting investment. Inefficient implementation of Albanian law typically makes it tough for foreign investors. Tax evasion is also a big problem. The country has been working with the World Bank to reduce red tape which could hamper doing business.

The Prime Minister has cited the government's decision to enlist the assistance of the OSCE to investigate the black economy and make policy recommendations which he said shows that Albania is serious about tackling corruption.

Meanwhile, modernization of the customs service in Albania has reduced customs fraud.

Vital Statistics

Population:	2003 - 3.2 million
Area:	28,748 km2
Language:	Albanian
Currency:	Lek (ALL)
Time:	GMT +1
Capital and Main Business Centers:	Tirana, Durres, Shkodra, Elbasan, Korca, Vlora
Key Industry Sectors:	Cement, Chemicals, Food processing, Hydropower, Mining, Oil, Textiles & Clothing, Timber
GDP Growth Rate:	2004 - 6.0% / 2005 - 6.0%
Inflation Rate:	2004 - 2.3% / 2005 - 2-4%
Unemployment Rate:	2004 - 15% / 2005 - n/a
Source: Albanian Institute of Statistics (INSTAT), IMF	

Successes in 2004/Major investments for 2005

An international consortium led by Germany's Hochtief will invest EUR 63.5 million to upgrade and maintain Albania's main airport in Tirana. Albania's biggest bank, Albanian Savings Bank, has been sold to Austria's Raiffeisen.

A Lebanese owned cement producer, Fushe Kruje Cement Factory, will invest EUR 103 million in the rehabilitiation and expansion of the cement factory in Fushe Kruje entailing the construction and equipping of a new 3,300 tons per day, dry-process kiln line, the installation of two new cement mills and a power plant.

Parliament has approved the purchase of a EUR 13.5 million satellite radar system, which will be used on the Albanian coast for both military and civilian purposes.

Likely privatizations

The government planned to privatize key state assets in 2005, like fixed line monopoly Albtelecom and the ARMO oil refinery; however, plans for the latter were later scrapped. Agriculture, tourism and mining assets will also be up for sale in 2005.

Albania also has plans for disposal of 40% shares of both the Italian-Albanian Bank and United Albanian Bank.

The government has not yet announced plans to privatize the KESH power utility, Petrolimpex petrol stations, oil driller Albpetrol, nor the INSIG insurance company.

Finally, the Albanian Privatization Agency has issued a new tender for privatizing the Dajti Hotel, which has a strategic position in Tirana.

Wages/Labor costs

One of the advantages that Albania offers for attracting foreign direct investments is low labor costs from a highly skilled workforce. Different studies have shown that wages in Albania are one tenth of those in Italy.

The average monthly salary in Albania for 2004 was just over EUR 114 per month.

Corporate tax rate

The Albanian government has cut the corporate tax rate from 25% to 23% and will reduce it to 20% next year.

Currency strength

EUR 1 = ALL 124.832

Top 5 companies - Turnover

Rank	Company name	Sector	Net sales in 2003 (EUR million)
1.	KESH (Albanian Power Corporation) - state owned	Energy	1,164.9
2.	AMC - Albanian Mobile Communication	Telecom	1,021.4
3.	Vodafone	Telecom	989.0
4.	ARMO - Albanian Refinery and Marketing Oil, state owned	Oil	524.4
5.	Albtelecom - state owned	Telecom	439.5

Bosnia and Herzegovina

The KPMG office in Bosnia and Herzegovina opened in 2000. The practice has 14 employees: 12 locals and 2 expatriates from Croatia.

Investment incentives

Bosnia and Herzegovina (BiH) offers significant tax incentives for foreign investors and has a risk protection system for guarding their interests (about 30 bilateral agreements on mutual advancement and investment protection have already ratified), as well as protections offered through a World Bank program. The country's foreign direct investment (FDI) laws are considered favorable, and the government has been working on improving its business environment. One result is a fully reformed and developing banking sector.

Bosnia bears considerable natural resources: wood, minerals, available agricultural and industrial land, possibilities for hydro-electric energy, etc. The country can also boast a highly educated, qualified and competitively priced work force.

Numerous state-owned companies are either being privatized or are seeking strategic partners.

International Funding

International aid for the reconstruction of BiH began after peace was established in 1995. Priority was given to the reconstruction of the country's infrastructure and providing aid for the population to help Bosnia up to get speed with the other Central and Eastern European economies. Industrial capacities damaged by the war are now being re-built, employing workers in accordance with the increase of demand on the domestic and international market.

Growth industries

- Metal production
- Timber and wood products
- Textiles, clothing and footwear
- Food and drink
- Energy
- Construction
- Tourism

Risks/Political stability

There are several programs aimed at protecting foreign investment in BiH. The Multilateral Investment Guarantee Agency (MIGA) has extended its package of services to BiH to help in minimizing political risks for potential foreign investors. The Oversees Private Investment Corporation (OPIC) provides political risk protection services for investments in BiH. Additional protection is ensured by the Agreements on Investment Promotion and Protection signed between BiH and 32 countries across the world.

Vital Statistics

Population:	3,989,018 (2003 July)
Area:	51,129 km2
Language:	Bosnian, Croatian and Serbian
Currency:	Convertible Mark (KM)
Time:	GMT +1
Capital and Main Business Centers:	Sarajevo
Key Industry Sectors:	Mining, Forestry, Hydropower, Agriculture, Food processing, Cement, Textiles and Clothing
GDP Growth Rate:	2004 - 5-6%(estimated)
	2005 - 5-6% (projected)
Inflation Rate:	2004 - 1.1% (estimated)
	2005 - 1.6% (projected)
Unemployment Rate:	2004 - 40% (estimated)
	2005 - 41% (projected)

Sources: Central Bank of Bosnia and Herzegovina, Foreign Trade Chamber of Bosnia and Herzegovina, International Monetary Fund

Source: Foreign Investment Promotion Agency (unless otherwise noted) www.fipa.gov.ba

In 2002 the so-called Bulldozer Committee was created with the aim of creating a working partnership between politicians and businessmen to identify legislation impeding the creation and further development of business opportunities, and to develop strategies for improving these conditions. Some measures toward these ends include: eliminating barriers to investment, liberalizing the inter-entity transport regulations, facilitating export of medicines, and promoting recycling and environmental protection activities. In the first two phases 100 reforms were introduced. Currently Phase II of the Committee is underway, aimed at realizing another 50 reforms within a set time-frame.

Bosnia has the lowest inflation in the region, with an average rate below 1%; no major changes are forecast for 2005.

Successes in 2004/Major investments for 2005

Companies which have been successfully privatized include:

- The Lukavac cement plant, the second largest manufacturer in its sector, purchased by Allas International Baustoff AG from Austria;
- TK Mostar, a textile plant, purchased by the Lemano Trading Company, Switzerland;
- Standard, a furniture factory purchased by the Schneider Gruppe of Germany, a company that owns 42 factories in Europe;
- Grupacija Prevent of Slovenia purchased 42% of Volkswagen Sarajevo Ltd;
- Alpha Baumanagement GmbH from Austria became the 100% owner of 5-star Hotel Holiday Inn in Sarajevo.

Wages/labor costs

Average monthly net wages in BiH from 1995 to 2004 amounted to EUR 273 per month.

A significant increase in labor cost is not expected in the forthcoming period, since the inflation rate is low and a number of skilled and semi-skilled workers are available. Many of them have been retained on company waiting lists to preserve their entitlement to social benefits and to minimize the loss of key workers as factories re-start their operations.

Corporate tax rate

The corporate income tax amounts to 30% in the Federation BiH, and 10% in Republika Srpska.

Currency strength

The currency, the convertible mark (BAM), is linked at a fixed rate of EUR 1 = BAM 1,9558.

Top 5 companies - Turnover

Rank	Investor	Sector	State capital for sale (EUR million)
1.	Akcionarsko društvo Banjalučka pivara	Food	14.3
2.	Boska AD	Retail	13.9
3.	Bimeks Brčko	Food Industry	9.7
4.	"UNIS" TPKS Prozor	Metal	4.6
5.	UNIS-TESLA BREČKO	Metal	4.4

Bulgaria

KPMG in Bulgaria was founded in October 1992. Today it has offices in Sofia and Varna, employing 160 people, of whom four are expatriate. The expatriate staff are from Australia and the UK.

Investment incentives/opportunities

Investment incentives are available to companies registered in Bulgaria, regardless of the nationality of the investors. The Act on Encouraging Investment regulates the terms and procedures of investing in Bulgaria and allows for preferential treatment for investments which create new, enlarged or modernized production facilities or services, new jobs and which are implemented within three years.

Certain tax incentives exist for investments in regions with high unemployment. These are available for investments in depressed economic regions included in a list approved by the Minister of Finance.

EU Funding

Currently, except for the SAPARD program, there are no other available EU funding opportunities for companies in Bulgaria.

EU Structural Funds (non-refundable EU grants) will be available for companies after Bulgaria's accession to the European Union which is planned for 1 January 2007.

Growth industries

- Financial Services
- Software development
- Automotive supply
- Health tourism (spa and wellness)
- Telecom
- Energy
- Construction (industrial, infrastructure and residential)
- Medical and pharmaceuticals

Risks/political stability

Factors contributing to Bulgaria's stable political and business environment include its forthcoming EU accession in 2007 with accompanying legal harmonization, a robust banking sector with 90% foreign ownership, membership in NATO and the fact that its credit rating has been increased 12 times in the past three years. It received an investment grade rating (BBB-) by S&P & Fitch as of June-August 2004 and Moody's raised Bulgaria's credit rating to Ba1 in November 2004.

The undisputed political event of 2004 was the successful completion of the negotiations with the EU and signing of the Accession Treaty between Bulgaria and the EU in April 2005.

Vital Statistics

Population:	2004 - 7. 8 million
Area:	110,912 km2
Language:	Bulgarian
Currency:	Lev (BGN)
Time:	GMT +2
Capital and Main Business Centers:	Sofia, Varna, Plovdiv, Bourgas, Rousse
Key Industry Sectors:	Tourism, Textile & Clothing, Food & Beverages, Telecommunications & Information Technologies, Energy, Chemicals, Mechanical engineering, Electrical engineering & electronics, Agriculture, Transport.
GDP growth rate:	2004 - 5.6 (estimated) / 2005 - 4.2% (projected)
Inflation rate:	2004 - 6.1% / 2005 - n/a (projected)
Unemployment rate:	2004 - 12.7 % / 2005 - 11.6% (projected)

Sources: Bulgarian National Bank, National Statistical Institute, Ministry of Finance, Foreign Investment Agency, EIU

Source: InvestBulgaria Agency (unless otherwise noted) www.investbg.government.bg

Successes in 2004/Major investments for 2005

Over 2003-04, Bulgaria has attracted record high foreign direct investment of over EUR 3.8 billion. This means that the total FDI stock for the period 1992 - 2004 has reached EUR 9.3 billion. As of December 2004, the top five investor countries were Austria, Greece, the Netherlands, Germany and Italy.

The following table shows a number of large-scale investments for 2004-05.

Name of investor	Investing country	Activity
Tokushukai Medical Corp.	Japan	Multi-functional hi-tech hospital
Sisecam	Turkey	Manufacturing of flat glass and glassware
Lindner	Germany	Real estate development
Dundee Precious Metals	Canada	Gold mining
Royal Frans Maas	Netherlands	Logistics park

Likely privatizations

Most of Bulgaria's state assets have already been privatized, although there are still some large companies and SMEs in government possession which are to be sold to private investors. These include:

1. Boyana Film EAD - film production and distribution
2. ADIS EAD - leasing real estate to the diplomatic corps in Bulgaria
3. Balkancar Holding (in insolvency) - manufacturing industrial powered trucks
4. Bulgaria Air EAD - the national air carrier
5. Bulgartabac Holding AD - the national tobacco manufacturer

Wages/Labor costs

Labor costs in Bulgaria are among the lowest in Central and Southeast Europe. In 2004 average gross monthly wages were EUR 156. Bulgaria also has one of the lowest personal income tax rates in the region - from 10 to 24% depending on the salary level.

Source: National Statistics Institute

Corporate tax rate

The general corporate income tax rate in Bulgaria is 15%. A 0% corporate income tax is available for five consecutive years when investing in manufacturing activity in areas with high unemployment (50% above the average for the country). Corporate tax base is decreased with R&D expenditures made in cooperation with R&D institutes or universities.

Currency strength

The national currency of Bulgaria - the Bulgarian Lev (BGN) - is pegged to the euro at the exchange rate of EUR 1 = BGN 1.95583.

Top 5 companies - Turnover

Rank	Company name	Sector	Net sales in 2003 (EUR million)
1.	Litasco Bulgaria (LUKoil Black Sea - Bulgaria)	Trade in petroleum products of LUKoil	1,164.9
2.	National Electricity Company	Energy supply, coordination of the national electric system	1,021.4
3.	LUKoil - Bulgaria	Petroleum products manufacturing	989.0
4.	Bulgarian Telecommunication Company	Telecom services	524.4
5.	Bulgargaz	Gas distribution	439.5

Croatia

The Croatian office, based in Zagreb, was founded in October 1993. It currently has approximately 120 staff members, roughly 90 percent of whom are local and 10 percent expatriate. The expatriate staff are from Australia, Austria, Canada, the UK and US.

Investment incentives

Investment incentives are available to all enterprises registered in Croatia, regardless of the nationality of investors or location of incorporation.

The incentive measures and tax and tariff concessions apply to investment in economic activities if this secures environmentally-friendly operations and achieves objectives like: the introduction of new equipment and cutting-edge technology; new production procedures and new products; greater employment and employee training; the modernization and advancement of business operations; export growth; or the expansion of economic activity in areas of the Republic of Croatia where economic growth and employment lag behind the national average.

When investing in Croatia foreign individuals are guaranteed the same rights and obligations as domestic investors: the possibility to assume profits and investments after the completion of the investment, granted concessions for the use of natural and other resources which allow for the application of special rates and tax exemptions, permission to establish any type of company or representative office with minimum capital, and permission to acquire title to and freely dispose of property in Croatia, including the purchase and sale of real estate.

Several tax exemptions for foreign direct investments also exist.

EU Funding

Non-refundable European Union grants will be available in 2005 for companies intending to invest or to extend their operations in Croatia.

Growth industries

- Tourism sector
- Telecommunications
- Energy
- Beverages - natural water
- Construction sector
- Research and development
- Environmental technologies
- Logistics
- e-Commerce

Risks/Political stability

Croatia's low business operations risk reflects the secure environment for business, progress on reform over the past decade and continued efforts to harmonize the operating environment with that of the EU. Croatia faces few immediate security risks. Since the 2003 Parliamentary election the dominant reformist wing of the Croatian Democratic Union has been working with its Serbian coalition partner, the Serb Democratic Party. Because of Croatia's constitution, and the fact that since the first

Vital Statistics

Population:	4.4 million
Area:	56.538 km2
Language:	Croatian
Currency:	Kuna (HRK)
Time:	GMT +1
Capital and main Business Centers:	Zagreb
Key Industry Sectors:	Tourism, Shipbuilding, Food & Beverages,
	Chemicals, Textiles, Electrical appliances
GDP Growth Rate:	2004 - 3.8% / 2005 - 4.0% (estimated)
Inflation Rate:	2004-2.1% / 2005-2.6% (estimated)
Unemployment Rate:	2004 - 18.4% / 2005 - 19.2% (Ist quarter)

Sources: Croatian National Bank, Croatian Bureau of Statistics, Ministry of Finance, Standard and Poor's

Source: Croatia Investment Company (unless otherwise noted) www.japodi.de democratic elections in 1990 there have been no interim changes in government, early elections are unlikely. Public procurement reform is putting Croatia in compliance with EU law. The Croatian judicial system operates under clearly specified guidelines. Tariffs are under reforms and will be fully in line with EU law and thus are generally low on such items as raw materials, machine goods and equipment. Many forms of quota protection have been eliminated and converted to more transparent tariffs under World Trade Organization rules. The danger of a trade embargo against Croatia is also very low.

Successes in 2004/Major investments for 2005

The most significant investors that are scheduled to launch development projects this year are:

Investor name	Country of origin	Sector
OTP	HUNGARY	Banking
CEM	USA	Media
Group100 member	Worldwide	Energy - power plants
AL-SHATT	SAUDI ARABIA	Beverages - natural water

Likely privatizations

Croatia plans to privatize numerous state owned businesses in the agriculture, hospitality, manufacturing and processing, and financial services industries. The following is just a sample from each of these.

With over 6,500 ha of arable land, the food producer Orahovica d.d. is famous for its production of top-quality wine and for being the largest hazelnut plantation in Croatia. It has a mill capacity of 80-100 tons/per day.

The hotel and restaurant concern Adriatic d.d., Split, which is located on the sea and features a modern conference facility that can accommodate 1,000 delegates, is also up for sale.

Industrial conglomerate Duro Dakovic Holding d.d, Slavonski Brod is a major industrial holding company competing in the global market; with majority of exports to the European Union. Finally, the Croatian government has announced that they are going to continue with privatization of INA in the second part of 2005.

Wages/labor costs

Croatia unit labor costs are 38% of the German level. The government is committed to keep the rate of real wage growth (forecast to be around 2% in 2005) under the rate of productivity.

The average monthly net wage in 2004 was HRK 4,173 (EUR 570), a real increase of 3.7% compared with 2003 (Source: EIU).

Corporate tax rate

Croatia's value-added tax is paid at a rate of 22%, the real estate sales tax is paid at a rate of 5%, and the profit tax is paid at a rate of 35% of the established tax base.

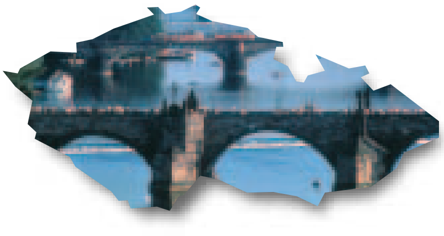
Currency strength

Exchange rate: EUR 1 = HRK 7.5 as at 14 March 2005.

Top 5 companies - Turnover

Rank	Company name	Net sales in 2004 (EUR million)
1.	T-HT	482.0
2.	INA	218.0
3.	ADRIS	109.0
4.	Pliva	97.3
5.	Agrokor	60.4

Czech Republic



KPMG in the Czech Republic was established in 1990. It now has offices in Prague, Brno, Ceske Budejovice and Jablonec nad Nisou. KPMG employs 550 people of whom 526 are local and 24 expatriate. The expatriate employees are from Australia, Canada, Denmark, Germany, Japan, Switzerland, the Netherlands, the UK and US.

Investment incentives

The Czech Republic offers both new and existing investors investment incentives and business support through several schemes, such as: tax incentives, job creation grants, training and retraining grants, and site support.

In order to strengthen the Czech Republic's position as an information and technology hub in the CEE region, the Czech government also supports investment for innovation and development as well as service activities with subsidies for business activities and for training. Subsidies also exist in order to support new job creation in regions worst affected by unemployment.

EU Funding

As a new EU member the Czech Republic is able to draw upon EU funds. Overall EUR 2.6 billion has been allocated to the country for the period of 2004-2006. The Czech Republic has prepared five operational programs within the Community Support Framework for allocation of EUR 1.3 billion, contributing to a competitive Czech business sector, with specific funds for transport infrastructure, environmental protection, rural development and regional development funds for less developed areas. A further EUR 945 million worth of EU financing from the Cohesion Fund will be available for development projects.

Growth industries

- Business support services/shared services
- IT/software development
- Life sciences and medical devices
- Electronics
- Microelectronics
- High-tech engineering
- Automotive sector
- Aerospace

Risks/political stability

The Czech Republic is a fully-fledged parliamentary democracy, one of the most advanced transition economies and one of the ten new members of the European Union. Economic policy is consistent and predictable. The country is a member of NATO and is fully integrated into other international organizations such as the WTO, IMF and EBRD. Commercial and accounting laws are compatible with Western standards. All international transfers (e.g. profits and royalties) related to an investment can be carried out freely and without delay.

Vital Statistics

Population:	2003 - 10.2 million
Area:	78,864 km2
Language:	Czech
Currency:	Crown (CZK)
Time:	GMT +1
Capital and Main Business Centers:	Prague, Brno, Ostrava, Plzen
Key Industry Sectors:	Machinery, Transport
GDP Growth Rate:	2004 - 4% (estimate)
	2005 - 4.1% (projected)
Inflation Rate:	2004 - 2.8% (estimate)
	2005 - 2% (projected)
Unemployment Rate:	2004 - 8.3% / 2005 - 8.3% (projected)

Sources: Czech Statistical Office, averages of leading Czech banks, OECD

Source: CzechInvest (unless otherwise noted)
www.czechinvest.org

Successes in 2004/major investments for 2005

Investment and business development agency CzechInvest mediated 145 new foreign and domestic investment projects throughout 2004 worth EUR 1.54 billion. Thanks to these investments at least 20 thousand new jobs will be created in the Czech Republic in the coming years. CzechInvest is currently in negotiation with 379 possible investors.

Some of the most high profile investments for 2004 include: Germany's Bosch Diesel in the automotive sector; Kronospan of Cyprus in wood processing; Luxembourg's Ronal in automotive; Japan's Daikin in automotive.

Major investors for 2005 in the Czech Republic include Lufthansa for business support services; domestic Czech firm Cutisin in foodstuffs; CSA Czech Republic in aerospace; SKODA AUTO in automotive; and UK electronics firm Incline.

Likely privatizations

Although most assets available for privatization have already been sold, there are still some significant companies that remain in government possession. These include: ČSA Czech Airlines whose main activities include regular air transport and charters, cargo, etc.; Česká správa letišť, the Czech airport authority; ČEZ power company; Česká pošta postal service; MERO International oil pipelines, the only oil transporter to the Czech Republic; ČEPRO, handling freight, storage and sale of crude oil products; ČEPS, responsible for ensuring electricity transmission.

Wages/Labor costs

The average monthly salary in 2004 was CZK 18 035 (EUR 565). Nominal wage growth is predicted to be about 6% and real wage growth to be about 4%.
Sources: Czech Statistical Office, 2005; wiiw, 2004

Corporate tax rate

Corporate income tax is levied on income from the worldwide operations of Czech tax residents and on Czech-source income of Czech tax non-residents. Czech tax residents are considered entities with their seat or the place of management in the Czech Republic. The standard rate of corporate income tax is 26% for tax periods ending in 2005 and 24% for tax periods ending in 2006 and thereafter. There are plans for further reduction of corporate tax but no timetable has been set.

Currency strength

The Czech koruna is stable and fully convertible. All international transfers (e.g. profits and royalties) related to an investment can be carried out freely and without delay.
EUR 1 = CZK 30.1 as of April 2005.

Source: Czech National Bank

Top 5 companies - Turnover

Company name	Turnover 2003 (EUR billion)
1. Škoda auto, a.s.	5.06
2. ČEZ, a.s.	2.69
3. Transgas, a.s.	2.08
4. Český Telecom, a.s.	1.72
5. Ispat Nova Hut, a.s.	1.6

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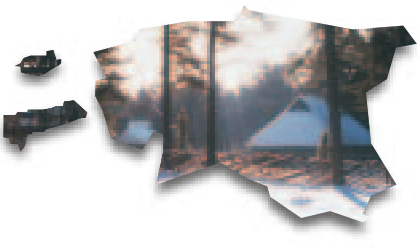
Estonia



KPMG in Estonia has been operating since 1991 and is a part of KPMG in the Baltics. The practice employs 100 local staff.

Investment incentives

Estonia's optimal location in the Baltic States, close to Scandinavia and Russia, means that businesses have easy access to over 50 million consumers. It is one of the fastest growing economies in the region and has high R&D potential.

EU Funding

European Union support programs are available for all companies active in Estonia. Between 2004 and 2006 Estonia will receive a total of EUR 372 million from EU Structural Funds.

- 37% for infrastructure and local development
- 20.5% for human resource development
- 19.7% for increasing the competitiveness of enterprises
- 18.7% for agriculture and rural development

Growth industries

- User friendly information and communication technology
- Material technology
- Biotechnology
- Services
- Distribution & logistics

Risks

Political as well as economic risk in Estonia is very low. International rating organizations have ranked Estonia with A ratings, and the Heritage Foundation Index of Economic Freedom places Estonia fourth in 2005. Among European countries in the survey, only Luxembourg is ranked ahead of Estonia.

Success in 2004/Major investments 2005

According to preliminary data Estonia received EUR 715 million worth of FDI in 2004. In 2005 the figure is expected to be close to EUR 900 million.

Vital Statistics

Population:	2003 - 1.4 million
Area:	45,227 km2
Language:	Estonian
Currency:	Kroon (EEK)
Time:	GMT +2
Capital and Main Business Centers:	Tallinn, Tartu
Key Industry Sectors:	Food, Clothing, Oil shale, Metals, Woodworking
GDP Growth Rate:	2004 - 6.2% (estimated)
	2005 - 5.6% (projected)
Inflation Rate:	2004 - 1.3% / 2005 - 4.0% (projected)
Unemployment Rate:	2004 - 9.7% / 2005 - 9.5% (1st quarter)

Sources: Bank of Estonia, Statistical Office of Estonia

Source: Enterprise Estonia (unless otherwise noted) www.investinestonia.com

Here are a few examples of investment projects in 2004 and 2005:

Investor name	Country	Investment profile
Larvic Cell/Heinzel Group/EBRD	Norway/Austria	Pulp factory
Svedbergs	Sweden	Bathroom supplies
Coca-Cola Corp	USA	Quality control center
LGP Allgon	Sweden	Electronics
Victor Stationary	UK	Paper manufacturing
Plastone Oy	Finland	Plastics factory
Severstaltrans	Russia	Oil transit
Pharmadule Emtunga	Sweden	Module houses
CeMines International	USA	Scientific research

Likely privatizations

The most active period of privatization in Estonia took place in the period 1994-1996. No major sales of state enterprises are pending.

Wages/Labor costs

The minimum wage in Estonia is EUR 172 per month. In 2004 the average monthly wage (gross) was EUR 462. The highest gross wage is in financial services and the lowest in the agriculture and hunting sector. Salaries can vary somewhat when comparing those in the capital with those in outlying regions.

Corporate tax rate

The Estonian tax system has a flat 24% rate (which will be reduced to 20% by the year 2007), and individual taxation is one of the most liberal tax regimes in the world. Moreover, the new Law on Income Tax provides that undistributed corporate profits are not subject to income taxation, regardless of whether invested or merely retained.

Currency strength

Since 1 January 1999 the exchange rate of the Estonian kroon (EEK) has been fixed against the euro at EUR 1 = EEK 15.6466.

In the current economic policy environment the exchange rate system in Estonia supports the smooth nominal and real convergence of Estonia's economy with that of the EU economy. Estonia's monetary policy principles in their openness and transparency comply with internationally accepted practices.

Top 5 companies, turnover

Rank	Company name	Turnover 2003 (EUR million)
1.	Eesti Energia AS	377
2.	Hansapank AS	360
3.	Kesko Food AS	210
4.	Tallink Group AS	191
5.	Merko Ehitus AS	173

Hungary

KPMG in Hungary was founded in 1989. The practice has 400 staff. The expatriate staff is from Australia, Austria, Belgium, Canada, Czech Republic, Germany, Holland, Ireland, Israel, Italy, Japan, New Zealand, Poland, Romania, Slovakia, South Africa, the UK and the US.

Political and economic stability

Hungary has proven to be a secure environment for business, and has consistently and successfully initiated required reforms. The country also continues to fulfill the equirements of being an EU member.

Public procurement reform is putting Hungary in compliance with EU law. The Hungarian judicial system operates under clearly specified guidelines.

EU Funding

Non-refundable European Union grants are available for companies intending to invest or to extend their operations in Hungary. Between 2004 and 2006 Hungary will have development opportunities of a total of nearly EUR 4 billion (HUF 968 billion) from EU Structural Funds and related Hungarian co-financed sources in order to increase the competitiveness of the economy; support employment, the healthcare and education sector; boost environmental and infrastructural development; provide support for agriculture in the countryside; and for regional development.

A further HUF 397.2 billion (nearly EUR 1.6 billion) worth of EU financing from the Cohesion Fund will be available for development projects.

Growth industries

- Automotive sector
- Software development
- Electronics
- Services (the establishment of shared services centers, call centers etc.)
- Research and development
- Environmental technologies
- Logistics
- Life sciences
- Construction sector, infrastructural projects (Public Private Partnerships)

Corporate taxation

The tax rate on a corporation's taxable profits is 16%. Most of Hungary's tax treaties reduce the withholding tax of 25% to between 5-15%. Payments of dividends to qualifying EU resident companies is possible without withholding tax if the company receiving the dividend has had a 20% share in the company paying the dividend continuously for at least two years. No withholding tax is levied on interest and royalties.

Vital Statistics

Population:	2001 - 10.1 million
Area:	93,030 km2
Language:	Hungarian
Currency:	Forint (HUF)
Time:	GMT +1
Capital and Main Business Centers:	Budapest
Key Industry Sectors:	Chemicals, Pharmaceuticals, Automotive, Metallurgy, Agriculture & Food Industry
GDP Growth Rate:	2004 - 4.0% / 2005 - 3.6% (projected)
Inflation Rate:	2004 - 6.8% / 2005 - 3.8% (projected)
Unemployment Rate:	2004 - 6.1% / 2005 - 7.1% (forecast)

Source: Hungarian Central Statistics Office, EIU, OECD

Source: ITD Hungary (unless otherwise noted)
www.itd.hu

Investment incentives

Investment incentives are available to all enterprises registered in Hungary, regardless of the nationality of the owners or location of incorporation.

Tax-related allowances:

- Development tax allowance
- Tax allowance for R&D activity, innovation and training
- Tax-free development reserve for five years
- Tax allowance on credit agreements
- One of the lowest corporate tax rates in the region (16%)

Direct incentives for investments:

- Tender applications
- Special incentive packages for strategic investors
- Subsidies for employment creation and training

New phase in attracting investments

Hungary's stable economy, a strong pool of highly-skilled workforce, broad network of suppliers and good infrastructure make it attractive to foreign investors. However, the country faces a new era of attracting foreign direct investment - while some 'high profile initial investments' may shoot up in quickly rising neighboring economies, Hungary is increasingly becoming the regional manufacturing and research and development center for companies that have already set up business there.

Several companies are expanding their activities, making the country their regional or European center of operations. Meanwhile, many other firms are not only increasing their production but also developing their R&D, accounting, customer service call centers as well as other shared service center activities.

Hungary has attracted the highest amounts of FDI per capita in the region since 1990. Hungary's Investment and Trade Development Agency (ITDH) is currently in negotiation with 210 possible investors. Based on the investment value of the related projects, ITDH expects at least EUR 3.7 billion worth of foreign capital to flow into Hungary in 2005.

Currency strength

Exchange rate: EUR 1 = HUF 242.49 as of 24 February 2005.

Top 5 companies - Turnover

Rank	Company name	Sector	Net sales in 2003 (EUR billion)
1.	MOL	Oil and gas	5.9
2.	Audi	Automobile	3.8
3.	Flextronics	Electronic equipment	3.2
4.	Matáv	Telecommunications	2.4
5.	Philips	White goods	2.1

Latvia

KPMG in Latvia was established in 1995 and has over 70 employees, including 4 expatriates: from the US, UK, Armenia and Russia. The practice is a part of KPMG in the Baltics.

Investment incentives

Latvia offers numerous incentives ranging from support via EU Structural Funds to favorable legislation on depreciation of special economic zones. These incentives are intended for companies registered in Latvia, and since foreign investors can be the sole founders and owners of such companies, they qualify for support as well.

Latvia's overall tax burden (including total amount of taxes and social security contributions) is one of the lowest in the EU. In 2003 the tax-to-GDP ratio in Latvia was 29.1%. The average tax burden across all 25 EU countries was 41.5% in the same period. There are also four special economic zones (SEZ) across the country, which can offer special benefits to investors.

EU funding

The government has developed state funding programs for enterprises registered in Latvia. These are co-financed by EU structural funds.

For 2004-2006 grants are anticipated for the following activities:

- Modernization of business-related infrastructure
- Consulting and participation in international exhibitions and trade missions
- Development of new products and technologies
- Increasing the venture capital of small and medium-sized enterprises
- Increasing the qualification, re-qualification and further education of employees
- Support for start-up commercial or self-employment activities
- Development of entrepreneurship in regions with special support status

Growth industries

- Forestry and woodworking
- Mechanical engineering and metalworking
- Textiles and Apparel
- Chemicals
- Biotech and pharmaceuticals
- Food production
- Information and communications technology
- Transit and logistics
- Electronics, electrical manufacturing and engineering

Risks/Political stability

Economic growth has made Latvia one of the most favorable countries for investments. Foreign direct investment (FDI) stock in Latvia at the end of 2004 amounted 31.5% of GDP. That share of investment in GDP is among the highest in the EU countries, higher than average in EU 15 countries and considerably higher than average in Central and Eastern Europe. In 2004 inflow of FDI doubled compared to the preceding year. In 2004

Vital Statistics

Population:	2002 - 2.3 million
Area:	64,600 km2
Language:	Latvian
Currency:	Lat (LVL)
Time:	GMT+2
Capital and Main Business Centers:	Riga, Ventspils
Key Industry Sectors:	Food, Wood processing, Financial services, Transit
GDP Growth rate:	2004 - 8.5% / 2005 - 6% (forecast)
Inflation rate:	2004 - 3.4% / 2005 - 5% (forecast)
Unemployment rate:	2004 - 9.8% / 2005 - 9.5% (forecast)

Sources: Bank of Latvia, Latvia Central Statistical Office

Source: Latvian Investment and Development Agency (unless otherwise noted) www.liaa.sov.lv there was a significant increase of reinvested earnings. Investors reinvested 2.7 times more of their earnings than in 2003.

The country provides equal treatment to foreign investors and domestic companies. By law, foreign investors have the same rights and duties as local investors - the foreign company may be the sole founder and owner of a company; there are almost no restricted sectors of activities; foreign companies registered in Latvia are entitled to buy land and property and freely repatriate their profits and capital.

The World Bank has ranked Latvia among the top 20 countries worldwide in terms of business start-up time. A fully fledged member of the European Union and NATO, Latvia has achieved political and economic stability.

Successes in 2004/Major investments for 2005

Reforms accomplished in Latvia and integration in the European Union have had a positive impact on the economic development of the country. Latvia has shown one of the highest economic growth rates in the EU. Growth has been observed in all major branches of economy.

Foreign investments 2004/2005

Investor	Country	Sector	Amount of Investment (EUR million)
EJeld-Wen	USA	Woodworking	40
International Greetings	UK	Greeting card production	29
AKG Group	Germany	Automotive components	20
Maxit	Germany	Construction	8
Syntagon	Sweden	Pharmaceuticals	3
Ballinadee Engineering	Ireland	Machinery	2

Source: Latvian Investment and Development Agency

Wages/Labor costs

Latvia offers significant labor cost advantages across virtually all industries and positions. Although rising steadily, labor cost increases remain lower than those in productivity, which means that currently labor costs in a variety of positions, from factory worker to software engineer, amount to only 20 - 30% of the average in the EU. It should be noted that regional differences in labor costs are considerable, as much as 40% when compared with those in Riga.
Average gross monthly wages in Latvia for 2004 were LVL 211 (just over EUR 303).

Corporate tax rate

Corporate income tax in Latvia is a flat rate of 15%, which is among the lowest in Europe. Companies registered in Latvia are subject to tax on their world-wide income. Non-resident companies without a permanent establishment in Latvia are subject to tax on source income Latvian.

Currency strength

EUR 1 = LVL 0.6961

Top 5 companies - Turnover

Rank	Company name	Sector	Net sales in 2003 (EUR million)
1	Latvenergo, VAS	Utility	289.2
2	ELKO grupa, AS	Computer components wholesaler	278.94
3	Lattelekom, SIA	Telecommunication services	198.35
4	Latvijas dzelzcelš, VAS	Railway	188.38
5	Latvijas Mobilais telefons, SIA	Mobile phone operator	187.18

Lithuania

KPMG has been operating in Lithuania since June 1994 and is a part of KPMG in the Baltics. Its offices are located in Vilnius and Klaipeda. There are 52 local employees and three expatriates from Denmark.

Investment Incentives

Lithuania provides the following legal protections for investors:

- an equivalent tax regime for foreign and domestic investors,
- free access to all sectors,
- foreign investor may be the sole founder of the company, and
- free repatriation of profits.

Lithuanian and foreign companies, corporations and associations are eligible to participate in the Free Economic Zone (FEZ) and Industrial Parks. FEZ incentives include:

- For investments over EUR 1 million:
- a corporate tax holiday for the first six years, and
- a 50% tax reduction for the following 10 years;
- No real estate taxes;
- No tax on dividends paid on foreign investments.

EU Funding

For the period 2004-06 the EU will provide funds to Lithuania totaling over EUR 895 million; this averages out to nearly EUR 300 million per year. The sum for the whole period breaks down to almost EUR 600 million for rural development, social funds of EUR 176 million, EUR 122.9 for agriculture and EUR 12 million for fisheries.

Funds toward private sector opportunities include over EUR 100 million for direct support to business, over EUR 82 million for improvements to energy supplies, nearly EUR 43 million for upgrading healthcare institutions, and EUR 40 million towards developing labor force competencies.
Source: Nord/LB Bank

Growth industries

- Industrial R&D
- Information and Communications Technology
- Biotechnology
- Automotive components
- Electronic component assembly
- Services (logistics, shared services centers)

Vital Statistics

Population:	2001 - 3.7 million
Area:	65,200 km2
Language:	Lithuanian
Currency:	Litas (LTL)
Time:	GMT +2
Capital and Main Business Centers:	Vilnius, Kaunas, Klaipeda
Key Industry Sectors:	Manufacturing, Financial services, Agriculture, Forestry, Construction
GDP Growth rate:	2004 - 6.7% / 2005 - 6.3% (projected)
Inflation rate:	2004 - 2.9% / 2005 - 2.8% (estimate)
Unemployment rate:	2004 - 6.9% / 2005 - 5.5-6%

Sources: Lithuanian Statistics Office, Economist Intelligence Unit

Source: Advantage Lithuania (unless otherwise noted) www.ida.lt

Risks/political stability

Lithuania offers a stable economic and social environment for safe and profitable businesses. The country offers unrestricted movement of capital and dividends. Lithuania expects to become a member of the European Monetary Union in 2007, the earliest among the new EU members.

The World Bank Group Report, "Doing Business in 2005: Removing Obstacles to Growth", named Lithuania one of its Top Ten Reformers (6th in the world) in improving its investment climate.

Corporate Profit Tax

The corporate tax rate is 15% - one of the lowest in Europe. However, the 0% rate is applied to companies engaged in agricultural production and to specialized enterprises which derive more than 50% of their receipts from such activity. The 13% profit tax rate is applied to entities whose gross income during the taxable period is less than LTL 500,000 (EUR 144,900) and whose number of employees does not exceed 10, except in certain cases.

Wages/labor costs

Lithuania's labor costs are among the lowest in the European Union. Since 1 May 2004, the minimum monthly salary is LTL 500 (EUR 145), the minimum hourly salary is LTL 2.95 (EUR 0.90). The average gross monthly wage in the 4th quarter of 2004 was LTL 1,310 (EUR 379). The average labor cost per hour in industry and services in Lithuania is EUR 2.71.

Currency strength

Exchanges rate: EUR 1 = LTL 3.4528 as at 22 March 2005.

Source: Bank of Lithuania, www.lb.lt

Likely privatizations

Prospective privatizations of the following Lithuanian enterprises include: joint-Stock Company AB Lietuvos Avialinijos ("Lithuanian Airlines"); joint-Stock Company UAB Kauno Signalas, specializing in installation and technical support for traffic regulation; joint Lithuanian-US company Adelita, providing restaurant and hotel services; power-plant stock company AB Mažeikiu elektrine, producing and selling electricity and heat; and Lithuanian news agency ELTA.

Source: State Property Fund, www.vtf.lt

Successes in 2004

Foreign investment in Lithuania has been steadily increasing and reached a total of EUR 4.5 billion in 2004 (forecast by Lithuanian Department of Statistics, www.std.lt).

In 2004 FDI flow amounted to EUR 521 million. Since the beginning of 2004 it grew 13%.

The international group Indorama started the construction of a high technology polyethylene terephtalate (PET) granule manufacturing plant "Orien Global PET" in the Klaipeda Free Economic Zone. The total investment amount will reach EUR 86 million.

Top 5 companies - Turnover

Rank	Company name	2004 I-III Q (EUR billion)
1.	Maeikiu nafta	1.59
2.	VP Market	0.78
3.	Lukoil Baltija	0.26
4.	Concern Achema Group	0.25
5.	Lietuvos geleinkeliai (Lithuanian Railways)	0.21

Source: Newspaper "Verslo žinios", www.vz.lt

Macedonia

KPMG in Macedonia has been operating in Skopje since October 1997. The office employs 31 local staff.

Investment incentives

As a small, relatively open economy, Macedonia continues to take steps to attract foreign direct investment (FDI). The country has enacted legislation that not only ensures an equal footing for foreign investors vis-a-vis their domestic counterparts, but also provides numerous incentives to attract such investment. The recently elected government is in the process of developing a strategy for stimulating investment with a particular emphasis on attracting FDI.

Macedonia has concluded a number of bilateral investment protection treaties and other multilateral conventions that impose stricter protection standards for foreign investors. The Constitution of Macedonia, as the supreme law of the land, guarantees the equal position of all entities in the market, but provides free transfer and repatriation of investment capital and profits for foreign investors.

Finally, a foreign investments agency has recently been established to provide information and assistance to potential investors.

International Funding

Macedonia's foreign minister has said her country expects a positive report from the European Commission in December, which could result in candidate status. After Macedonia joined the World Bank the institution's commitments to the country have totalled over EUR 528.3 million. The EBRD also contributes funds for bolstering the country's infrastructure and the IMF is a major lender, too.

Growth industries

- Metals/metal processing
- Services
- Agriculture
- Foodstuffs
- Clothing
- Chemical
- Pharmaceuticals
- Tourism
- Banking
- Transport

Risks/Political stability

Year on year foreign direct investment doubled in Macedonia in 2004, to about EUR 119 million. It is not expected to increase significantly in 2005. However, GDP grew last year, unemployment remained stable, and the public account deficit was kept low.

Source: various press reports

Vital Statistics

Population:	2003 - 2.04 million
Area:	25,700 km2
Language:	Macedonian
Currency:	Denar (MKD)
Time:	GMT +1
Capital and Main Business Centers:	Skopje
Key Industry Sectors:	Food, Tobacco, Textiles
GDP Growth rate:	2004 - 2.9% / 2005 - 3.8% (projected)
Inflation Rate:	2004 - -0.4% / 2005 - 1.5% (projected)
Unemployment Rate:	2004 - 37.2% / 2005 - n/a

Source: Macedonia Ministry of Finance

The uncertainty of property rights has been a huge impediment to both investment and overall economic development in Macedonia. To help ameliorate this the World Bank has approved a EUR 11 million loan to assist the government in improving the business environment and making it more attractive for investors by establishing more efficient procedures for registration of real estate.

Macedonia's growth target for the year is 3.8%.

Successes in 2004/Major investments for 2005

Most of the FDI growth in 2004 came from the telecom sector - it took in nearly EUR 55.6 million. Manufacturing investments totaled EUR 37.8 million, and services investments were EUR 75 million. Investments totaling EUR 4.8 million were also made in the farming, hunting and fishing sectors.

In order to increase its output by five times the pharmaceuticals manufacturer Jaka 80, most of whose business is exports, mainly to Russia, plans on building a EUR 26 million plant. Metal engineering firm Metalec has plans to set up a EUR 15 million free economic zone which could accommodate 50 industrial production facilities, to attract foreign and domestic investors.

At a cost of over EUR 753 million, Macedonia has formulated a comprehensive public investment program for the period 2005-2007 for developing the country's energy and transportation sectors. This includes development of the major transportation corridors in Macedonia and, in order to better serve the country's power requirements, hydroelectric power will be developed and the gas network bolstered.

Likely privatizations

Macedonia's privatization process is almost complete. When the Macedonian Privatization Agency closed at the end of 2004, the government still owned residual shares in a few companies, but those will be sold in early 2005.

Macedonia plans on granting concessions for the maintenance and development of its two international airports, in the capital Skopje and at Ohrid, a lakeside resort. Plans to privatize the power monopoly ESM were to be delayed but a tender could be issued in the fall. Macedonia signed a USD 56.9 million equity investment deal with the EBRD to finance the restructuring of ESM before privatization ensues.

Wages/Labor costs

The average monthly salary in Macedonia was MKD 12,241 (EUR 200), according to the latest available data.

Corporate tax rate

15% flat

Currency strength

EUR 1 = MKD 61.4229 (National Bank of RM middle exchange rate)

Top 5 companies - Turnover

Rank	Company name	Profile	Sales revenue
1.	Makedonski Telekomunikacii	Telecommunications (ICE - Communications	n/a
2.	Mobimak	Mobile operator	n/a
3.	USJE	Cement factory (building & construction, real estate)	n/a
4.	Pivara	Brewery (food & drink)	n/a
5.	Tutunski Kombinat Skopje	Tobacco company - production and processing (food & drink)	n/a

Moldova

KPMG in Moldova was opened in July 1997. In 2001, it became affiliated with KPMG in Romania and presently has 28 local staff.

Investment incentives

Investment incentives are available to all enterprises registered in Moldova, regardless of the nationality of owners or location of incorporation.

Tax-related allowances:

- Tax allowance for investments over USD 250,000
- Tax-free development reserve for three years for small and micro enterprises
- Tax allowance on bank credit agreements
- Low corporate tax rate (18%)

Direct incentives for investments:

- Tender applications
- Special incentive packages for strategic investors

Growth industries

- Agriculture
- Software development
- Services (mobile networks, call centers, etc.)
- Wine industry
- Logistics
- Construction sector, infrastructural projects
- Insurance & banking industry

Risks/Political stability

Moldova's relatively low business operations' risk reflects the secure environment for business, progress on reform over the past decade and continued efforts to improve the investment environment. The country faces few immediate security risks. Parliament is stable and early elections are unlikely. The Moldavian judicial system operates under clearly specified guidelines. Export growth has started rebounding strongly, especially in agriculture and wine sectors, and combined with a recovery in investment supports a sustainable real GDP growth (over 6%). Moldova places few restrictions on trade and capital account transactions. Tariffs are generally low on such items as raw materials, machine goods and equipment, but in any case do not exceed 15%. Moldova is a member of the World Trade Organization. The danger of a trade embargo against Moldova is very low. Trade unions are generally conciliatory, strikes tend to be infrequent.

Vital Statistics

Population:	2002 - 4.2 million
Area:	33,843 km2
Language:	Romanian, Russian
Currency:	Lei (MDL)
Time:	GMT+2
Capital and Main Business Centers:	Chisinau
Key Industry Sectors:	Agriculture, Wine production, Food processing
GDP Growth Rate:	2004 - 7.3% / 2005 - 6% (projected)
Inflation Rate:	2004 - 12.4 % / 2005 - 12.5% (projected)
Unemployment Rate:	2004 - 8% / 2005 - 14.4%

Source: Ministry of Finance forecasts

Source: National Agency for Attracting Investment (unless otherwise noted) www.naai.moldova.md

Successes in 2004/Major investments for 2005

In 2004 Moldova attracted roughly EUR 146 million of foreign investment, an increase of 8% compared to 2003.

The most significant investors launching development projects in 2005 include: Germany's METRO AG for wholesaling activities; Azerbaijan's Azpetrol for the development of an oil terminal; and Italy's Prospera-Habitat, investing in construction and infrastructure.

Likely privatizations

Although most assets available for privatization have already been sold, there are still some companies in government possession that are especially worthy of investors' attention. These include: Moldtelecom, the country's biggest national communication company; tobacco company Tutun-CTC; and RED Nord & RED Nord-Vest, electricity distribution companies.

Wages/Labor costs

The average monthly salary in 2004 amounted to MDL 1,103.8 (around EUR 65), which is far below unit labor costs in the region. The government is committed to maintaining the current rate of real wage growth.

Corporate tax rate

The tax rate on a corporation's taxable profits is 18% (likely to fall to 15% in 2006). The withholding tax varies from 10% to 15%.

Currency strength

Exchange rates: EUR 1 = MDL15.21 as at 21June 2005.

Top 5 export companies - Turnover

Rank	Company name	Profile	Export sales revenue in 2004 (EUR million)
1.	FLOAREA SOARELUI SA	Cooking oil	18.8
2.	METALFEROS SA	Trade, metal & metal products	15.4
3.	"IONEL" FC SA	Apparel	13.1
4.	PM "FORTRADING MERIDIAN" SRL	Spirits & cigarettes	12.3
5.	"WINE INTERNATIONAL PROJECT" SRL	Wine	9.6

Poland

KPMG in Poland was founded in May 1990. There are now KPMG offices in Warszawa, Poznan, Krakow and Wroclaw. The practice has over 700 staff.

Investment incentives

Available incentives for investors include:

- Special tax treatment for investments in Special Economic Zones
- Exemptions from real estate tax
- Support for hiring the unemployed

EU Funding

The EU funds designated for structural policy objectives in Poland will be one of the largest amount distributed in all the acceding countries and, according to estimates, will reach EUR 11,368.6 million. This amount will be allocated over the period of 2004 - 2006. Among the most important projects are those for regional development and transportation.

Growth industries

- Services (for example: financial services, call centers)
- Biotechnology
- Research and development
- Aerospace sector
- Construction sector

Risks/Political stability

The risk of doing business in Poland has been decreasing substantially for a number of years. Poland's memberships in the WTO, OECD and in the European Union have made the country's economy more stable and business-friendly. Poland is, among new EU members, one of the most successful countries in implementing EU law. A substantial growth rate and low inflation contribute to the economy's trustworthiness. High growth is supported by the expansion of goods and services, new investments and low and stable wages. An inefficient judicial system and examples of corruption are quoted as the main obstacles to running a business in Poland.

Vital Statistics

Population:	38.2 million (2004)
Area:	312,685 km2
Language:	Polish
Currency:	Zloty (PLN)
Time:	GMT + 1
Capital and Main Business Centers:	Warszawa, Krakow, Poznan, Gdansk, Wroclaw, Katowice, Lodz
Key Industry Sectors:	Machinery & Equipment, Manufacturing, Chemicals, Agriculture
GDP Growth Rate:	2004 - 5.4% / 2005 - 4.3% (forecast*)
Inflation Rate:	2004 - 3.5% / 2005 - 2.8% (forecast*)
Unemployment Rate:	2004 - 19.1% / 2005 - 18% (forecast*)

**consensus forecast of financial institutions*

Source: Polish Information and Foreign Investment Agency (unless otherwise noted) www.paiz.gov.pl

Successes in 2004/Major investments for 2005

In 2004 the total amount of foreign direct investments reached USD 7.9 billion. The estimated FDI stock for the year 2004 is USD 84.5 billion. In the year 2004 58% of total investments were greenfield investments. That is 7 percentage points more than the year before. M&A contributed 25% of the total FDI inflow in 2004 and the remaining 17% came from privatization. The major area of interest was manufacturing: 41% of total investments were in that sector. The second most important sector was financial services with a 27% share in total inflow of investments.

Rank	Name of investor	Investing country	Investment profile	Inflow (in million USD)
1.	Apollo Rida	USA	Real Estate	800
2.	France Telecom	France	Telecommunications	450
3.	LNM Holding N.V.	India	Metallurgy	390
4.	BEG SA	France	Construction	356
5.	Vattenfall AB	Sweden	Water and energy supply	305

In the beginning of 2005 the Polish Information and Foreign Investment Agency has succeeded in acquiring several new foreign investors. The most important are: Michelin (253 million USD), LG Electronics (90 million USD), Electrolux (60 million USD), Hewlett Packard (40 million USD), Viva Magnetic (20 million USD).

Likely privatizations

The privatization processes have been underway for several years and most of the highest profile assets have been sold. While significant progress has been made, the sectors listed below are still in the process of or are awaiting privatization:

- energy sector (heat and power generation and distribution, fuel trading companies and gas monopoly);
- chemical sector (refineries, chemical producers);
- mining sector;
- fishery;
- transportation (eg. PKP - Polish National Railway);
- mechanical (machinery producers).

Corporate tax rate

In 2004 the corporate income tax rate amounted to 19%.

Currency strength

Exchange rates: EUR 1 = PLN 4.06 as at 29 June 2005.

Top 5 companies in Poland - Turnover

Rank	Company name	Net sales revenue in 2004 (million PLN)
1.	PKN Orlen SA	40,810
2.	Telekomunikacja Polska SA	18,563
3.	PZU SA	16,016
4.	Polskie Sieci Energetyczne SA	15,784
5.	Metro Group	12,400

Sources: Ministry of Treasury, National Bank of Poland, EIU, Rzeczpospolita, PAIiIZ; ISI Emerging Markets

Romania

KPMG in Romania was founded in 1994 and now there are KPMG offices in Bucharest and Timisoara. The practice has 250 staff, out of which nine are expatriates coming from Great Britain, Israel, Canada, France, Sweden and Malaysia.

Investment Incentives

The incentives currently granted to investors in Romania are mostly fiscal in nature, consisting of certain exemptions, deductions and facilities, including:

- VAT exemptions for import of industrial equipment intended for investment purposes and for some raw materials and consumables;
- Exemptions for direct investments with significant impact in the economy (more than USD 1 million);
- Free Trade Zones;
- Industrial parks;
- Micro-enterprises.

EU Funding

The total volume of pre-accession assistance available to Romania is substantial (around EUR 825 million in 2004) and increasing.

This pre-accession aid to Romania is provided by three main instruments:

- the Phare Program, providing funding for institution-building and investment in support of EU accession preparations (around EUR 405.3 million per year);
- ISPA, the pre-accession instrument providing investments in transport and environmental infrastructure (between EUR 289 and EUR 343 million per year); and
- SAPARD, the financial instrument supporting agriculture and rural development (around EUR 158.7 million per year).

As a result of the first wave of enlargement the Copenhagen European Council decided in December 2002 to increase EU assistance to Romania by 20% (over 2003 levels) in 2004, 30% in 2005 and 40% in 2006.

Growth industries

- Real-estate sector
- Automotive industry
- Telecommunications industry
- Construction sector, infrastructural projects (Public Private Partnership)
- Financial sector

Risks/ Political stability

The European Union's Permanent Representatives Committee has unanimously approved Romania's accession treaty and were scheduled to sign it. Romania must tackle 11 key areas related to Judiciary and Home Affairs and Competition chapters, according to the decision of the European Council last December in Brussels. Failure to meet the targets may result in postponement of the accession date (scheduled for Jan 2007) by one year.

Standard & Poor's has revised its outlook on Romania's sovereignty from 'stable' to 'positive' based on the commitment of the new centrist government to step up Romania's economic and institutional reforms.

Vital Statistics

Population:	2003 - 22.4 million
Area:	237,500 km2
Language:	Romanian
Currency:	Lei (ROL)
Time:	GMT+2
Capital and Main Business Centers:	Bucharest
Key Industry Sectors:	Manufacturing, Agriculture, Food production, Tourism, Chemical industry, Oil industry
GDP Growth Rate:	2004 - 8.3% / 2005 - 5.8% (projected 2005)
Inflation Rate:	2004 - 9.3 % / 2005 - 8.6% (projected 2005)
Unemployment Rate:	2004 - 6.8% / 2005 - 6.3% (projected 2005)

Source: National Institute of Statistics, EIU

Source: Romanian Agency for Foreign Investment (unless otherwise noted) www.arisinvest.ro

Successes in 2004/Major Investments for 2005

Privatizations for 2004 included: sale of the controlling interest for Petrom National Oil Company to Austrian oil company OMV for between EUR 1.392 and 1.529 billion; sale of majority stake in gas distributor Distrigaz Sud in a EUR 311 million deal to Gaz de France; Germany's Ruhrgas took majority stakes in gas distributor Distrigaz Nord for EUR 304 million; and Italian energy group Enel signed a contract for 51% of regional electricity distributors Electrica Banat and Electrica Dobrogea after one year of negotiations.

Other major investments for the year were made by companies like Germany's Tengelmann supermarket chain, Canada's Celestica which makes high capacity servers, and Italy's tire manufacturer Pirelli.

Likely privatizations

- Romanian Commercial Bank (BCR) - the largest bank in Romania
- National Savings Bank (CEC) - the bank with the largest unit network in Romania
- Turceni, Craiova and Rovinari Power Complexes - power plant-coalmine complexes
- Electroputere Craiova - railway equipment and engine maker
- Rulmentul Brasov - ball bearings manufacturer
- Tractorul Brasov - tractor maker based in Brasov

Wages/labor costs

The economy-wide average wage increased by a real 9.5% year on year in 2004, according to the statistics office. This is the growth of net wages, while gross wages increased slightly quicker – by 9.6%. Employees saw an average net wage of some EUR 147 per month through the year, while they paid EUR 204 on average. The highest wages are in the financial services sector, some ROL 14.5mn (EUR 370, net) in November and ROL 23m in December (EUR 590, on year-end bonuses). The average wages in three sectors, namely the mail and telecom sector, public administration and utilities, are roughly half of those in financial services companies, while average wage in industry is generally around EUR 212. The lowest wages are in retail, and construction - but also in healthcare and education sectors - as well as in farming (around EUR 141).

Source EIU.

Corporate tax rates

- Standard corporate tax rate is 16%
- Until 31 December 2006 a special corporate profit tax exemption continues to apply to certain companies carrying out manufacturing activities, which had been investing in the Free Trade Zone prior to 30 June 2002.

Currency strength

Exchange rates as of 23 June 2005

EUR 1 = RON 3.57

Top 5 Co's -Turnover

Rank	Company name	Turnover in EUR million 2003
1.	PETROM S.A. - Bucharest	1899
2.	The Electricity Distribution and Supply Company - Bucharest	1315
3.	ISPAT SIDEX SA - Galati	1080
4.	ROMPETROL RAFINARE SA - Constanta	913
5.	METRO CASH & CARRY ROMANIA SRL - Otopeni	826

Serbia & Montenegro

KPMG has been operating in Serbia and Montenegro since 1996, with offices in Belgrade and Podgorica. We have 85 staff members, 84 of whom are local and one expatriate.

Investment incentives

Tax Credits

The amount of tax due can be reduced by 20% of the amount invested in fixed assets for the respective tax period. This reduction cannot exceed 50% of the total tax liability. If not used in its entirety in the course of one year, this tax credit can be carried forward for a maximum period of ten years.

A wide variety of industries are entitled to a tax credit in the amount of 80% of investments made in purchasing fixed assets with their own financing. The unused part of any such investment can be carried forward for up to 10 years.

If the company is classified as a small enterprise, a tax credit is also granted for fixed assets, in the amount of 40% of the investment made in the current year. The credit may not exceed 70% of the tax due.

A taxpayer who employs new workers for an indefinite tax period is entitled to tax reduction for the amount equal to 100% of gross salaries, increased by the related contributions paid by the employer.

Tax Holidays

Enterprises are exempt from income tax for 10 years proportionally to the investment, starting from the first year in which they realize taxable income if:

- they invest (or another entity invests) in fixed assets of an amount exceeding CSD 600 million (app. EUR 7.5 million), and
- during the investment period they employ at least 100 additional employees.

Vital Statistics

Population:	2001 - 10.7 million
Area:	102,173 km^2
Language:	Serbian
Currency:	Dinar (CSD)
Time:	GMT +1
Capital and Main Business Centers:	Belgrade, Podgorica (Montenegro), Nis, Novi Sad
Key Industry Sectors:	Agriculture, Mining, Food Production, Chemicals
GDP Growth Rate:	2004 - 8% / 2005 - 4.5-5% (projected)
Inflation Rate:	2004 - 12-13% / 2005 - 13% (projected)
Unemployment Rate:	2004 - 13.7% / 2005 - 21% (estimated)

Source: Institute for Statistics of the Republic of Serbia, IMF

Source: Serbia Investment & Export Promotion Agency (unless otherwise noted)
www.siepa.sr.gov.yu

Successes in 2004

Large transactions in 2003 pushed foreign direct investment to just over EUR 1 billion. While FDI did not reach that in 2004 it still totaled EUR 674 million.

Some of the successful privatizations which have taken place in Serbia between 2002 and 2004 include: the cigarette producer DIN to Philip Morris for EUR 518 million; the acquisition of beer brewer Apatinska pivara by Belgium's Interbrew for EUR 326 million; Italy's Banca Intesa acquired Delta banka for EUR 277 million; and Russia's Lukoil took part in the privatization of Beopetrol, spending EUR 210 million.

Major concessions to be granted in 2005

- B.O.T. scheme for the E-80 highway - part of the corridor 10, connecting Niš with Dimitrovgrad on the Serbian-Bulgarian border;
- B.O.T. scheme for the E-763 highway - route connecting Belgrade and Požega, the first phase of the highway to the South Adriatic Sea;
- Concessions for exploration and exploitation of mineral and ore deposits in Crni Vrh and the Jarandol Basin.

Source: SIEPA

Likely privatizations

The Privatization Agency and the Share Fund plan to accelerate the pace of privatization in 2005. The Privatization Agency's plan calls for a minimum of 18 public tenders to be held, along with the sale of 300 companies through public auctions. In addition the state's shares in 250 companies will be offered on the Belgrade Stock Exchange.

Currency Strength

EUR 1 = CSD 82.3886

Source: Bloomberg.com

Top 5 companies - Turnover

Rank	Company name	Sector	Net sales in 2003 in EUR million
1.	NIS - Naftna industrija Srbije	Oil and gas	2,934
2.	Elektropivreda Srbije	Energy	768
3.	Telekom Srbija	Telecommunications	671
4.	Delta Holding	Retail	304
5.	Thermo Electric Power Plant "Nikola Tesla"	Energy	299

Slovakia

KPMG in Slovakia has been operating since 1991. It now has 250 employees, including expatriate staff from Belgium, Canada, Germany, Ireland, Italy, Poland, The Netherlands, South Africa, Australia, UK and USA.

Investment Incentives

The currently effective legislation enables the following types of investment incentives:

- Tax relief - till the end of 2006
- Contribution for creating new jobs
- Contribution for training of staff
- Contribution for technological infrastructure and purchase of land

Financing from the EU

The following Structural Funds are available for Slovakia for the period 2004-2006:

- European Regional Development Fund (ERDF) - supporting regions and business in regions;
- European Social Fund (ESF) -supporting employment and professional training;
- European Agriculture Guidance and Guarantee Fund (EAGGF) - funds for rural and agricultural areas;
- Financial Instrument for Fisheries Guidance (FIFG) - funds for the development of the fishing industry.

Road and rail infrastructure development programs are also scheduled to get a boost from EU structural funds in 2005-06.

Risks and Political development

The main international rating agencies continue to upgrade Slovakia's key ratings. Their actions follow an extended period of continual improvement in Slovakia's macroeconomic performance, which has been underpinned by significant structural reforms and consolidation of market-oriented social and economic institutions. These changes have created one of the most business friendly environments in Central and Eastern Europe, attracting a significant number of foreign direct investors. Greater production efficiencies, the streamlining of the public sector and major structural reforms reforms set Slovakia on a sustainable path of economic growth and fiscal rectitude.

The ability of a succession of coalition governments to pursue important structural reforms with or without parliamentary majorities speaks to a maturation of the country's politics. The consensus on these questions extends to prudent fiscal and monetary policies that currently place Slovakia in a position to enter ERM II, a prerequisite for introduction of the euro, and actually adopt the euro in advance of three larger European neighbors, Poland, the Czech Republic, and Hungary.

Source: Moody's Investors Service

Vital Statistics

Population:	2001 - 5.4 million
Area:	49,014 km2
Language:	Slovak
Currency:	Koruna (SKK)
Time:	GMT +1
Capital and Main Business Centers:	Bratislava
Key Industry Services:	Manufacturing, Engineering,
	Financial services
GDP Growth Rate:	2004 - 5.5% / 2005 - 4.8% (projected)
Inflation Rate:	2004 - 7.5% / 2005 - 3% (projected)
Unemployment Rate:	2004 - 18.1% / 2005 - 17.9% (predicted)

Source: Business Monitor International, OECD, EIU

Source SARIO (unless otherwise noted)
www.sario.sk

Growth industries

- Automotive
- Electrical engineering
- Information technologies, software development
- Outsourcing services, call center services
- Research and development
- Environmental technologies
- Construction industry, infrastructure projects

Successes in 2004/Major investment projects for 2005

Slovakia's investment agency SARIO has compiled a survey of 42 investment projects totaling SKK 101 billion (nearly EUR 2.5 billion). The following are among the country's high profile investors:

Plastipak, an American chemical manufacturer; Korean automaker KIA Hyundai; Germany's IT firm Infeon; French electrical engineering firm Air Liquide; and Switzerland's electrical engineering company Sky Media Manufacturing, a division of Universal Media Corporation.

Wages/labor costs

Average labor costs per hour in industry and services in 2002 in Slovakia were roughly EUR 3.59. This was nearly one-fifth of the average wages in the EU, according to Eurostat.

Corporate tax rate

According to Act no. 595/2003 Coll. on income tax, effective from January 1, 2004, the tax rate for legal entities is uniform, irrespective of the achieved income, at 19%.

Exchange rate

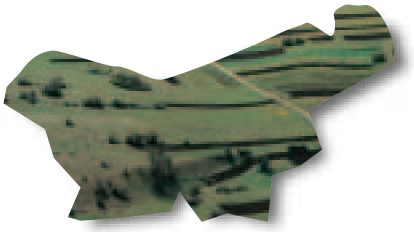
EUR 1 = SLK 38.580 as at 1 April 2005.

Top 5 companies - Turnover

Rank	Company name	Sector	Turnover in EUR billion, 2003
1.	Volkswagen Slovakia, a.s., Bratislava	Engineering	4.7
2.	Slovenský plynárenský priemysel, a.s., Bratislava	Energy	1.9
3.	U.S. Steel Košice, s.r.o., Košice	Metallurgy	1.7
4.	Slovnaft, a.s., Bratislava	Chemicals	1.7
5.	Slovenské elektrárne, a.s., Bratislava	Energy	1.2

Source: Trend - Slovak economic weekly magazin

Slovenia



KPMG has been operating in Slovenia since 1993. There are currently offices in Ljubljana and Maribor. The practice has 153 local and 3 international employees.

Investment incentives

All profitable legal entities (foreign and domestic) are subject to the corporate income tax. The following incentives apply:

- a 10% tax deduction for investments in equipment (excluding personal vehicles, office equipment and materials) and immaterialized long term assets;
- a 10% tax deduction for investments in research and development.

Additional incentives, like a lower taxable base on employee salaries, are also available (under certain conditions) to those companies who hire unemployed or first-time job seekers or the disabled.

EU funding

Non-refundable European Union grants are not available for companies intending to invest or to extend their operation in Slovenia. Potential investors can apply for funds towards investment from the Cost Sharing Grant Scheme, which is managed by the Slovene Ministry of Economy.

Growth industries

- Automotive
- Chemicals & Pharmaceuticals
- Electrical & Electronics
- ICT
- Logistics & Distribution

Political stability & Risks

Slovenia joined the EU last year, which has been the country's primary goal since becoming an independent democratic republic in 1991. In the last 14 years Slovenia has developed a strong modern economy and opened its markets substantially to foreign capital. During this time Slovenia has been accomplishing a steady 3-5% annual real GDP growth. The number of new enterprises is growing constantly. Slovenia is a fully authorized NATO member and is momentarily presiding over the OSCE. The country is firmly on a course for further development.

Vital Statistics

Population:	2001 - 1.9 million
Area:	20,256 km2
Language:	Slovenian
Currency:	Tolar (SIT)
Time:	GMT +1
Capital and Main Business Centers:	Ljubljana, Maribor, Kranj, Celje, Koper, Novo Mesto
Key Industry Sectors:	Manufacturing, Agriculture, Forestry, Trade, Transport, Real estate, Business services
GDP Growth Rate:	2004 - 4.6% / 2005 - 4% (estimated)
Inflation Rate:	2004 - 3.6% / 2005 - 2.6% (estimated)
Unemployment Rate:	2004 - 10.6% / 2005 - n/a

Sources: Slovenia Statistical Bureau, Economist Intelligence Unit

Source: Trade and Investment Promotion Agency (unless otherwise noted) www.investslovenia.org

Successes in 2004/Major investments for 2005

Total annual FDI inflow for the year 2004 was EUR 419.9 million.

Major foreign investors in Slovenia include:

- Manufacturing: Novartis- Sandoz Group, Danfoss, Bosch, Siemens, Gruppo Bonazzi, Meyr Melnhof, Brigl and Bergmeister, EGO, Pfleiderer, Henkel, Goodyear, Safilo Group, Renault, Johnson's Control, Securidev, Lafarge Perlmooser, Interbrew, Hella, Sun Roller
- Retail: Leclerc, Lidl, Spar, Rutar, ÖMV, MOL
- Financial services: Societe Generale, Bank Austria CA, SanPaolo IMI, Hypo-Alpe-Adria-Bank, KBC, Reiffeisen Bank

The largest FDI project in 2005 is the expansion of French auto maker Renault's activities in Slovenia through its local subsidiary Revoz.

Likely privatizations

There are still some companies that are state owned, but no actual privatisations are planned for the near future.

Wages/labor costs

Slovenia's average net monthly salary rose by 2.8% month-on-month in March 2005, to SIT 174,418 (EUR 728), according to the Slovenian Statistics Office.

Corporate tax rate

Corporate income tax is set at 25% of the taxable base, which is one of the lowest rates in the EU. Profit repatriation tax is also set at 25% on dividends paid to residents in Slovenia. This rate is lowered to 15% on dividends paid abroad, unless otherwise provided in one of the 34 bilateral agreements on avoidance of double taxation signed by the Slovene government. Consecutively, there is no profit repatriation tax for EU residents. There is no witholding tax on interests and royalties.

Currency strength

Currency: Slovene Tolar (SIT)

Exchange rates: EUR 1 = SIT 239.73; USD 1 = SIT 179.19; GBP 1 = SIT 344.63

Since 28 June 2004 the Slovene Tolar has been included in the Exchange Rate Mechanism II (ERM II). The country is scheduled to adopt the euro in 2007.

Source: Bank of Slovenia, 16.03.2005

Top 5 companies - Turnover

Rank	Company name	Sectors	Total income in 2003 (in EUR million)
1.	Petrol	Refining and sale of fuel	1,244
2.	Revoz (Renault)	Auto manufacture	757
3.	Mercator	Retail	715
4.	Lek (Novartis)	Pharmaceuticals	636
5.	Merkur	Retail	534

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