CZECH FOCUS

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Your roadmap to quality services in the Czech Republic...



The Association for Foreign Investment (AFI) represents a group of renowned companies operating the Czech market that support the entry of foreign investors into the Czech Republic by providing them with a broad range of professional services.

> Thanks to their experience, the AFI's members are the ideal bridge between local conditions and the expectations of foreign investors.

Jan Bobek
Steering Committee Chairman, AFI

ASSOCIATION FOR FOREIGN INVESTMENT

INVESTOR'S CALENDAR

September – November 2009

September

29.9. – 3.10. Czech-Mexico Technology and Innovation Days 2009 as a part of National Exhibiton Mexico City, Mexico

October

12. – 14.10. Waipa World Investment Milan, Italy

13. – 15.10. CPhi Madrid, Spain

13. – 18.10. Equip Auto Paris, France

19.10. Technology Day on RDI Prague, Czech Republic

November

3. – 4.11. UK NanoForum & Emerging Technologies 2009 London, UK

5.11. Czech Investment Seminar Osaka, Japan

5. – 6.11. Czech - British Technology and Innovations Days 2009 London, UK

17. – 20.11. Midest Paris, France

For more detailed information about the participation of specialists from CzechInvest in the above-mentioned events, please write to jakub.dvoracek@czechinvest.org.

Czech Republic

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Vladimír Tošovský, Minister of Industry and Trade

Dear Readers,

The 51st annual International Engineering Fair will take place in Brno in mid-September this year. It is symbolic that we will open the trade fair's second half-century in the midst of an economic crisis that has adversely affected nearly every sector of the global economy.

To a significant extent, electronic communications reign supreme in today's business world. The internet is continually shortening distances and expanding time. Direct meetings between firms and their potential customers can thus seem needless. On the other hand, it still applies that personal contact and conversation brings to both parties much more than is possible through videoconferences and e-mail communication. I therefore appreciate the fact that in spite of cost-cutting measures, the company BVV Veletrhy Brno is putting the same effort and care into organising this year's edition of International Engineering Fair as in previous years. It is said that a firm should invest its last dollar in advertising and marketing. That is doubly true in times of economic recession.

The global economic crisis is not only making it more difficult to organise a flawless trade fair, but is also being felt in the engineering sector itself. It generally applies that those worst afflicted by the current decline in orders are producers of smaller individual machines, which for customers comprise investments that are usually the first to be cut during a crisis. The situation is significantly different for producers that offer investment units. Their anti-crisis strategy consists in a transition to exporting complex production lines and investment units.

Such projects require several years of preparation and therefore it usually does not happen that the customer, beleaguered by the current economic problems, would cancel an order as is usual in the case of smaller machines and equipment. Czech engineering firms have a very favourable position in the face of their competitors, particularly China and other Asian countries as well as traditional rivals such as the United States and Japan. Not only because of this, they are maintaining a high level of quality, which is of greater importance than price in the customer's decision-making. Human capital remains the main source of added value. Czech engineering firms decidedly do not have a label displaying eastern origins; their competitiveness consists not in low prices, but rather in their ability to often find original solutions.

Another egg that Czech engineering firms have in the basket on foreign markets is state aid for export activities. This refers specifically to products from the Export Guarantee and Insurance Corporation (EGAP) and the Czech Export Bank (CEB). Previously, equity financing did not constitute a problem, particularly for Russian and Ukrainian firms. Now everything is different. The purchasing power of customers there was diminished by the devaluation of the local currency against the euro and dollar, which increased the purchase price of delivered goods, thus bringing about a partial collapse of the banking system. Thus the possibility of ensuring for partners financing in the form of export credit improved the position of Czech firms against the competition.

A fundamental step on the part of the state to support exports was the recent increase of EGAP insurance to up to 99% of the volume of export contracts. Previously, insurance covered 90% to 95% of the financing volume, which in the case of investment units meant that the risk shared by exporters and the bank was substantial. This corresponded with the bank's willingness to provide such credit. The increase in the CEB's basic capital was also beneficial, in that it allowed the bank to increase the credit commitment to each client.

The current global recession does not represent an opportunity only for exporters of investment units. All competent firms can profit form it. Many companies recall the period roughly one year ago, when perhaps every firm in the Czech Republic was struggling with a seriously deficient supply of labour. The lack of available workers was so great that firms were forced to find employees wherever they could. That meant not only importing workers from abroad, but also hiring and rapidly training completely unqualified employees. Another phenomenon was that the supplier market practically ceased to exist. Due to overwhelming demand, manufacturers of various components, tools and equipment needed by engineering firms were unable to satisfy their customers, which in turn had to begin producing numerous things themselves and therefore employ additional people. Now a widely voiced opinion is that the situation is now returning to normal in direct relation to declining sales resulting from the recession. Suppliers can again fill orders and prices are returning to a reasonable level. And when will the recovery begin? During the announcement of the Investor of the Year awards at the end of June, representatives of companies asserted that firms from the countries of the former Soviet Union had already begun to recover. Their orders are growing. And further developments indicate that we can expect recovery as early as next year. So, how can we prepare ourselves for the journey out of the darkness? Through continual innovation and development of new products and ideas.

Vladimír Tošovský,
Minister of Industry and Trade,
Czech Republic

Headline news

■ *May 2009* For the fourth consecutive year, German companies operating in the region of Central and Eastern Europe selected the Czech Republic as the most attractive country for investors. This is according to a survey conducted by the German Foreign Chamber of Commerce in 18 Central European countries. In the Czech Republic the survey was carried out by the Czech-German Chamber of Commerce and Industry.

■ *June 2009* In recent elections the Civic Democratic Party (ODS), the nation's largest centre-right political party, secured the Czech Republic's largest number of seats, 22, in the European Parliament. With more than 31% of the vote, the ODS added nine seats to its previous total. The Czech Social Democratic Party came in second with more than 22% and seven seats, followed by the communist KSČM four seats, and the centrist KDU-ČSL with two seats. Turnout was low, with only 28% of eligible voters taking part in the election. No other party surpassed the five-percent threshold for seating an MEP.



For the fourth consecutive year, German companies operating in the region of Central and Eastern Europe selected the Czech Republic as the most attractive country for investors.

Politics and Legislation

■ *June 2009* The caretaker government of Prime Minister Jan Fischer gained Parliament's confidence and successfully concluded the Czech Republic's presidency of the European Union. The caretaker government will remain in place until early elections are held in autumn.

■ *June 2009* Small and medium-sized firms will no longer have to keep mileage logs, thanks to an amendment of the Act on Administration of Taxes and Fees, which was approved by Parliament. In future, companies with no more than three automobiles will be able to record deductions at a flat rate of CZK 5,000 per month. The exemption will not apply to large firms.

■ *June 2009* The EU Council formally approved new roaming rules. As of 1 July roaming rates fell by up to 60% in all 27 member states. The new European roaming directive ensures that SMS will not cost more than 11 eurocents without VAT (roughly CZK 3) in the EU. Mobile operators are now also required to bill calls per second after the first thirty seconds.

Economy

■ *June 2009* According to the Ministry of Industry and Trade, foreign direct investments totalled CZK 182.8 billion last year, down 1.5% from CZK 185.3 billion in 2007. The largest investor was Germany, whose investments increased to CZK 58.9 billion in 2008. Conversely, Czech companies increased their total of FDI abroad from CZK 27.1 billion in 2007 to CZK 32.4 billion last year.

■ *September 2009* Parliament again approved the Road Toll Act, pursuant to which automobiles weighing over 3.5 tonnes will have to pay tolls on domestic highways beginning next year. Currently vehicles weighing over 12 tonnes are subject to tolls. The new law stipulates that tolls will be paid not only according to the number of axles, but also on a yearly or daily basis.

■ *September 2009* Parliament has approved a package of anti-crisis measures, includine a scrappage scheme, in spite of the Civic Democratic Party's refusal to take part in voting. The measures also include an extension of unemployment benefits and a reduction of corporate contributions to social-security insurance. President Václav Klaus had previously vetoed the bill at the beginning of summer.

■ *June 2009* According to the Czech Statistical Office, the average monthly income in the Czech Republic increased by 2.4% to CZK 22,941. Adjusted for inflation, the average income rose by 0.3% year on year in the first three months of the year.

■ *September 2009* The peroformance of the Czech economy saw a 4.9% y/y decline in the second quarter of this year. According to data from the Czech Statistical Office, this is one of the biggest year-on-year quarterly declines in GDP in the Czech Republic's modern history. In connection with the improving outlook for the euro-zone economy, a slight improvement in the Czech economy's performance is expected in the second half of the year.

■ *September 2009* According to the Czech Statistical Office, the year-on-year inflation rate fell to 0.2% in August, its lowest level since September 2003. This was due to lower food prices, offset by rising fuel costs. However, due to the ongoing crisis unemployment rose from 8.5% to 8.6%, though according to analysts the economy has bottomed out.

■ *September 2009* In June the trade balance showed a surplus of CZK 12.3 billion, slighlty exceeding the market's expectations. However, both sides of the trade balance fell substantially in a year-on-year comparision. In a month-to-month comparison, there was a futher improvement of export performance. For last year as a whole, Czech foreign trade posted a record surplus of CZK 100 billion.

Business

■ *June 2009* On 3 June GE Money Bank opened a new customer service centre in Ostrava. The centre currently employs nearly 700 people and thanks to the expansion will offer roughly 300 new jobs; the bank will hire 200 new employees by the end of the year.

■ *June 2009* The Czech Republic and Germany are among the few countries that can boast rising sales of new automobiles. In Germany 390,000 cars were sold in May, a year-on-year increase of 40%. In the Czech Republic, the number of new vehicles sold increased by 20.5% to 14,277. However, domestic manufacturers of vehicles and components reported revenues of CZK 707 billion, a 3.8% year-on-year decline.

■ *June 2009* The top managers of the CEZ group introduced a concept for the future of the Czech energy sector called FUTUR/E/MOTION. The concept's priorities include investments in science and research, amendment of the portfolio of power plants to include small cogeneration units in consumption locations, introduction of the next generation of renewable sources, intelligent networks and electromobiles in the Czech Republic.

■ *June 2009* Automotive Lighting announced plans to expand its Jihlava plant through further investments and to strengthen the company's development capacity within the next three years. A new technology centre being built by the company will employ 100 workers.

■ *June 2009* Euroform announced plans to build two new facilities in the Prestanov-Chabarovice industrial zone in the Usti nad

Labem region; one will be used to assemble axles and brakes for trucks, while the other is intended for maintenance and repairs. The company plans to start construction next July and will employ 700 people in three shifts to assemble axles and 167 in a single shift to perform repairs and maintenance.



The Czech Republic and Germany are among the few countries that can boast rising sales of new automobiles.

■ *June 2009* Preol, a member of the Agrofert Holding group, opened Central and Eastern Europe's most advanced plant for processing beets for bio-diesel in the Lovochemie complex in Losovice. The state-of-the-art facility, which cost CZK 1.6 billion, is currently in trial operation.

■ *July 2009* The American company Synteract, which specialises in clinical testing of pharmaceuticals and medical technologies, will open its headquarters for Central and Eastern Europe in Prague in August. Its main activities will be arrangement and monitoring of clinical tests.

■ *July 2009* The carmaker Hyundai Motor Manufacturing Czech is planning to build another manufacturing facility for the production of transmissions in Nošovice. The company will invest EUR 130 million (CZK 3.4 billion) in the project.

■ *July 2009* Several international companies are preparing to transfer production to the Czech Republic. Hewlett Packard has suspended production of servers in Scotland and Germany and is transferring it to the Czech Republic in order to cut costs. This move should create 700 new jobs. There is speculation that the firm is interested in using the Foxconn facility in Pardubice.

■ *July 2009* In mid-June the German firm Lincoln opened a new logistics and assembly centre in the Sokolov district. The leading German industrial and electronics group Siemens AG decided to transfer up to 280 jobs, mostly in corporate accounting, from Germany to the Czech Republic.

■ *July 2009* Poštovní Spořitelna and ČSOB have opened a new call centre in Náchod. The centre is equipped with the latest contact-centre technologies, facilitating substantially faster and easier communication with clients. Over 100 people have found jobs at the call centre.

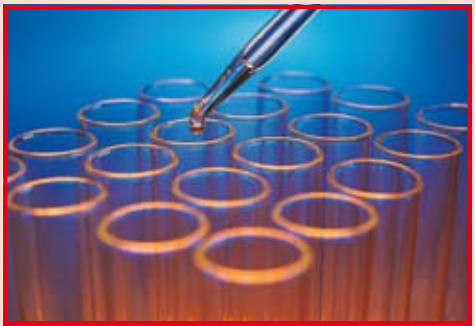
■ *July 2009* The Italian concern Enel is entering the domestic electricity market. Its trading subsidiary Enel Trade secured a license for trading electricity in the Czech Republic on 15 April.

■ *August 2009* The French firm Finareo and Central Connect Group have signed an agreement on the joint construction of a new paint shop for airplanes, which will be situated in Mošnov. The investment will total CZK 250 million and the facility will employ 70 people.



According to an Ernst & Young survey on investment projects in Europe, the Czech Republic remains among the world's twenty most attractive investment destinations.

■ *August 2009* Wistron, a Taiwanese electronics manufacturer, is expanding its operations in Brno. The company currently produces desktop computers and servers at the CTPark industrial zone. Beginning this year, it will also manufacture LCD monitors and televisions in Brno. The company's plant in the Czech Republic is its only facility in Europe and employees 500 people.



The Academy of Sciences and Charles University announced plans to build a modern Biotechnology and Biomedicine Centre research facility in Vestec near Prague.

■ *August 2009* Saar Gummi Czech of Červený Kostelec in the Náchod region is planning to invest CZK 100 million in the production of seals for window-guide mechanisms to be used in a new Mercedes-Benz model.

Miscellaneous

■ *June 2009* The Academy of Sciences and Charles University announced plans to build a modern Biotechnology and Biomedicine Centre research facility in Vestec near Prague. According to the project documentation the research facility should create 300 to 350 new jobs. The centre will include, for example, laboratories and IT technology.

■ *June 2009* According to an Ernst & Young survey on investment projects in Europe, the Czech Republic remains among the world's twenty most attractive investment destinations. In an overall ranking according to the number of implemented foreign projects, however, the Czech Republic fell from ninth to fourteenth place, even though it received 5% more FDI projects in 2008 than in 2007. The country registered a 63% decline in the number of newly created jobs.

■ *June 2009* The use of virtual offices is becoming more common as a means of cutting costs. For a monthly fee in the range of CZK 100 to CZK 1,000, companies can register their headquarters at an attractive address and use mail-receipt, short-term office-rental and assistant services. According to a survey conducted by the firm Office House, a leader in the virtual-office market, the number of firms thus registered on the Czech market grew by 80% year-on-year.

■ *August 2009* The Physics Institute of the Academy of Sciences is planning to build an international laser research centre in the Central Bohemian municipality of Dolní Břežany. Construction should begin in 2013 and be completed in 2015.

Sources:

Czech Information Agency, Czech News Agency, MF Dnes, Právo, Lidové noviny, Hospodářské noviny, E15, Profit, Euro, Czech Business Weekly, iHNed.cz, Aktualne.cz, Novinky.cz, iDnes.cz, MediaFax, Revers, OECD, Czech Statistical Office

Timely relocation brings substantial savings for firms



Illustrative photo

Even though the economic crisis has not affected the Czech Republic's economy as strongly as those of developed Western European countries, we can still clearly see its impacts on the Czech market. Companies in all sectors of the economy are striving to revise and optimise their spending and to save money wherever possible.

One of the most significant cost items is rent paid for office, sales, production and warehousing spaces. According to information of consultants from Colliers International, rental costs represent the second biggest item immediately after labour costs among more than half of all firms. The current "crisis" situation on the market is to a significant extent beneficial for tenants.

Betting on speculation

In terms of new construction, and thus the supply of new commercial spaces, the last two years set records. New administrative centres and industrial properties arose practically on every available plot of land and more projects were planned. Development companies built on speculation, i.e. without first concluding contracts with future tenants for certain parts of new structures. In short, the long boom and year-by-year growth in take-up convinced them that they would have no problem renting out spaces even after their completion.

However, betting on speculation was not particularly prudent. The crisis brought about a significant decline in demand and there was suddenly nobody to occupy the record volume of newly built spaces. In addition, the panic on the inter-bank credit markets spilled over into investment transactions outside the financial markets. A lack of confidence in the inter-bank credit market then led to a substantial tightening of the criteria for receiving credit and a freeze on investment financing. Speculative construction slowed significantly (or came to a complete halt) and renting out already existing spaces became the developers' new priority.

Cut prices, or we'll go elsewhere

A fundamental rule of economics states that if supply outweighs demand, downward pressure on prices mounts. Tenants can use this to their advantage in the current market situation. If they have on their side an experienced consultant who is familiar with the conditions on the market and knows how to deal with landlords, tenants can get significant discounts on rental rates by renegotiating their lease conditions. Landlords will be willing to offer a wide range of incentives in order to keep tenants in their facilities.

A new trend that has become apparent in the past six to nine months is relocation, i.e. the complete transfer of a company into new facilities. Relocation represents one of the few opportunities to profit from the crisis. Developers literally fight over clients looking for new spaces. A tenant that signs a longer-term lease contract for new facilities can get a very attractive price in the current market.

However, the decline has a positive side also for developers, as tenants are more willing to sign a contract of longer duration in exchange for lower rental rates. This allows developers to gain stable cash-flow over the long term and increases the value of their properties. This can play a role in the case that a developer needs to obtain credit for additional construction or is planning to sell a property in the near future. Projects occupied by tenants with long-term contracts have a significantly higher value on the investment market.

The right time to change offices

The crisis has severely affected the class-A office-space market in the Czech Republic. Developers are now revising their projects – those under construction are slowly being completed and those that are still only on paper will surely stay there for the time being. With regard to the fact that during the office-space boom of the last two years newly constructed projects were considerably overvalued, developers must maintain their value on paper due to the badly regulated financing from banks. Due to restricted access to financing, developers will get credit only if they have approximately 30-50 % of their facilities pre-leased. They generally do not have enough equity capital to continue with projects on their own. Therefore, they are offering massive incentives for new tenants, such as annual one-month rent holidays over the

Special report: Focus on relocation

entire duration of the contract and modification of spaces according to the client's needs.

"The market downturn is best seen in individual figures – according to the Prague Research Forum, in the course of last year developers built approximately 320,000 m2 of new offices, compared with only 80,000 m2 so far this year. Our prediction for 2009 as a whole is in the range of 120,000 m2 of completed spaces, which represents a year-on-year decline of approximately 63%," says Ernie Himsl, director of the corporate services department at Colliers International. The new market situation raises two crucial points for tenants.

Firstly, developers necessarily need to fill the empty spaces that they built in the past period. Therefore, they are very flexible and open to any agreement when negotiating rental conditions. Secondly, due to the current supply overhang, the indicative rental rate has been falling for the first time since 2006. For example, in the centre of Prague it declined year-on-year from EUR 23/m2/month to EUR 21, and from EUR 14-15 to the current EUR 12-13 on the capital's periphery. The most attractive areas include primarily Prague 4 and 5, though tenants are also moving to Prague 8 and 9. According to information from Colliers International, tenants can currently negotiate an effective rental rate (including all incentives) that is up to 25% less than a year ago. Thus, now is the ideal time for tenants to renegotiate their lease conditions or to relocate.

Despite more and more companies are occupying hitherto empty spaces under favorably negotiated conditions, there is no perceptible trend of recovery on the market yet. However, the possibility of substantial cost savings may disappear soon. "It's not difficult to surmise that following the situation in which the volume of newly built spaces fell by approximately 60 % and new ones aren't being built, by the middle of 2011 at the latest, we might arrive at a situation similar to that in 2007, when the vacancy rate was only around 5-6 % and rental rates rose. We anticipate that this development will repeat itself during 2011 and rents will rise again," adds Himsl.

Rents in warehouses continue to decline

The current crisis is having perhaps an even more overwhelming impact on the sector of industrial properties, warehouses and production facilities. Similarly as in the case of office spaces, new construction has practically come to a halt, as the surplus of speculative projects, together with declining demand, resulted in high vacancy rates in already completed spaces. The Czech Republic, which thanks to its strategic location and favourable labour costs has always been a very attractive location for logistics and industrial properties, is now struggling with a vacancy rate of roughly 19%. Of the total of 3.2 million square metres of modern warehouse and light-assembly and –manufacturing facilities in the Czech Republic, roughly 608,000 m^2 are currently vacant. In 2007, the vacancy rate was roughly four times lower. "This is a record for the past 13 to 14 years that the industrial-property market has been in existence in the Czech Republic. A year-on-year comparison of the volume of transactions in the first quarter of 2008 and 2009 shows a 70% decline. If we compare the year-on-year balance from the first half of 2008 and 2009, the situation is even worse – a decline of up to 73%. This indicates a further slight decline in transactions in the second quarter," say Karel Stránský, director of the industrial property department and managing partner at Colliers International.

The reasons for the new market situation are similar to those on the office market. Besides the crisis, speculative construction in recent years is a primary factor. In 2006 it appeared that more and more firms would come to the Czech Republic, and developers thus built more and more facilities without knowing for whom. During the recession, however, the number of potential tenants dwindled and buildings now stand empty.

If we compare the office and industrial-property markets, we can see an interesting difference – whereas in the case of office spaces there is a general downward trend affecting the entire market, development on the industrial-property market varies depending on the attractiveness of individual regions. Thus, in regions where there practically are not any spaces available (Ústí, Pardubice), rents have maintained the same level despite the crisis. Conversely, in many attractive locations, rents have fallen due to high vacancy rates (Prague, Plzeň).

Relocation offers an interesting opportunity to cut costs also for those interested in industrial properties. Real-estate agents from Colliers International are currently registering growing interest primarily in two areas. The first comprises Asian manufacturers in the IT and automotive sectors. The second consists in companies from Western Europe that, due to the crisis, are finding it necessary to transfer their manufacturing plants from their home countries to the east. Because of the complicated social situation and strong unions in their home countries, however, negotiations on transferring operations beyond their borders are mostly conducted in secret. This trend is prevalent in the IT and automotive sectors as well as among pharmaceutical companies and firms in the FMCG sector.

With regard to negotiating conditions, a correct assessment of the market's development in future years is of key importance for tenants. For this purpose, analysts from Colliers International created a model of the development of demand which showed the considerable dependence of rental activities on the development of the rate of GDP growth and the PRIBOR rate set by the Czech National Bank, which practically determines the availability of credit for companies. Statistically, however, the demand model indicates a one- to two-year delay in the rate of response to the aforementioned macroeconomic variables. "This means that, if the economy begins to grow in one year, demand for industrial properties will begin to recover a year or two later. And this also applies for the market downturn. With regard to the fact that the decline in GDP still hasn't bottomed out, we anticipate that the downturn on the market – or in the better case, stagnation – will persist for at least a year," Stránský explains.

It may seem that now is the time for negotiating new lease conditions. Nevertheless, it is necessary to take into account the speed of negotiations. Whereas in the case of office spaces, negotiations can take two or maximally three months, for industrial properties the process is considerably longer – usually around six months. Of course, it applies here that the more time a client has for negotiating, the better the conditions he can receive. The real-estate agent plays a key role in negotiating a relocation. If agents know how the market will develop and can bring these arguments to the table, they can negotiate very favourable conditions for tenants.

The company is a member of the Association for Foreign Investment (AFI). More information is available at www.afi.cz.



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Due Diligence – when and why?

Illustrative photo

What is Due Diligence?

The term "due diligence" is commonly used when referring to a process through which a potential buyer evaluates a target company, an enterprise or its assets. Typical due diligence usually focuses particularly on the area of law, taxes and finance with the aim of emphasizing strengths and weaknesses of the target and detecting risks connected with its acquisition. For the sake of simplification, we will use the term "enterprise" or "target" when talking about the subject matter of due diligence.

Simply put, the buyer conducting due diligence investigates all relevant aspects of the target's past, present and predictable future and makes sure that the target is in the condition as represented by the seller.

Conducting Due Diligence – When and Why?

As indicated above, due diligence is crucial if one intends to conduct mergers and acquisitions, buy or sell specific assets, implement corporate restructuring, raise financing for large projects, etc. A thorough, detailed due diligence is typically conducted after the parties involved in a proposed transaction have agreed in principle that a deal should be pursued and after a preliminary understanding has been reached, but prior to the signing of a binding contract.

In the case of purchasing a small enterprise, the buyer will usually want to learn everything possible about the enterprise before signing the purchase agreement or, alternatively, if there is not enough time to do that, the buyer will want to make sure that the representations of the seller concerning the business are rather comprehensive and that the definitive agreement allows him to withdraw from the deal if the due diligence conducted after signing the definitive agreement is not satisfactory.

Conducting due diligence helps the buyer to avoid if not all, then at least some of problems such as:

- misunderstanding as to the type and condition of the target
- discovery that the purchase price of the target does not correspond to its value
- bad management of the target
- bad financial situation of the target
- pending lawsuits related to the target
- contingent liabilities

Legal Due Diligence Process

Preparatory Stage

The importance of the preparatory stage of due diligence cannot be overstated. Before the start of any due diligence procedures, it is critical to clarify the strategy of the due diligence, priorities, level of investigation, etc. At the "kick-off" meeting, among other things it is essential to determine the nature of the transaction (e.g. stock sale, asset deal, enterprise sale, etc.) as this will directly influence the focus and depth of the related due diligence procedures. A materiality threshold may be determined at

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this stage of the due diligence process – for example, documents or contracts for amounts less than a specified amount of money will not be examined or issues with risk of less than a specified amount of money will not be explored. Of course, the materiality threshold depends also on the value of the transaction.

The parties conducting due diligence generally create a checklist of required information. At the very beginning of the due diligence process, a due diligence questionnaire corresponding to the scope of investigation and focusing on the most critical areas is sent to the seller of the target in order to obtain all documents and information to be examined. A team is established and tailored according to the timing, structure, scope and strategy for the due diligence project. The due diligence team should include one coordinator who coordinates the team's activity in the data room and liaises with the target and, as the case may be, other individuals or entities (e.g. the client in the case that the due diligence is performed by lawyers, for example). All team members shall hold regular meetings to share their findings and critical information, etc.

It is essential that all members of the team have a good understanding of the target and the deal before they first enter the data room. The team members must be able to raise and discuss all issues surrounding the transaction from the very first moment in the data room. In some situations, it may be useful for the team to preliminarily discuss who will focus on which issues in the data room.

Data Room Stage

Once the data room stage commences, i.e. once the due diligence team members enter the premises where the documents subject to investigation are gathered, the co-ordinator assigns work or adjusts the scope of work for each team member based on the conditions of the data room, organisation of files, etc. The plan of the team's work is adjusted with respect to timing and prioritisation of documents, and a request for additional information is prepared.

The scope of the due diligence to be conducted is based on many factors, including prior experience, the size of the transaction, the likelihood of closing the transaction, tolerance for risk, time constraints, cost factors and resource availability. As a rule, everything should be disclosed by the seller in due diligence. Although it is impossible to learn everything about the target, it is important to learn enough to lower the risks to an appropriate level and to be able to make good, informed business decisions. In fact, the seller's liability can become far less if the seller discloses rather than hides information in the due diligence. On the other hand, an appropriate investigation into and verification of the most important issues often must be balanced by a reasonable level of trust concerning less important issues, so that the seller is not offended to the point of walking away from a deal.

The main documents which should be provided by the target in the course of due diligence are typically:

- constitutional and other corporate documents (founder's deed; articles of association; minutes and/or consent of the general meeting, board of directors and/or other bodies; etc.)
- licenses and permits related to operation of the enterprise
- internal systems and procedures
- key contracts
- financial statements
- tax and financial documents
- customer lists
- employment agreements, confidentiality agreements with employees
- litigation-related documents;
- intellectual property-related documents

While researching the files in the data room, it is crucial to record all identified issues by taking notes, using dictaphones, etc. Since good communication is often the key to successful due diligence, any important findings shall be immediately reported to the coordinator. Conversely, the coordinator shall immediately inform the team of any important information received. The coordinator regularly receives updates on the progress of work from all members of the team. It is extremely practical to organise daily debriefs with the team members to discuss their findings. In particular, the coordinator communicates to others all information received during the day from the target company or, as the case may be, the client, and receives principal information from the team members.

Report Stage

Once the investigation is completed and the respective findings obtained, all information important for making the actual decision must be transformed into a due diligence report.

A due diligence report is a detailed report about the good standing of the target in terms of all reviewed aspects. The due diligence report gives the buyer a professional legal evaluation of what exactly is being offered for sale, whether the target has any defaults in terms of, for example, invalid contracts, expired licenses, problems with state authorities, etc., and develops a strategy to successfully deal with the identified issues, if possible.

Brief Summary

A business activity such as buying an enterprise is an arduous, yet potentially rewarding process that can take weeks or even months. It is critical to do the necessary homework when gathering information about the target, since the acquisition involves investing a fair amount of money as well as time. Conducting due diligence is essential to determine the purchase price and formulate the contractual warranties. Although risk cannot be completely eliminated through due diligence and success can never be guaranteed, a well-run due diligence can significantly improve the odds that the transaction will be successful.

The company is a member of the Association for Foreign Investment (AFI). More information is available at www.afi.cz.

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Special report: Focus on relocation

What you should know about leasing property in the Czech Republic


Illustrative photo

Usually due to financial reasons or time limitations, leasing of business properties – whether offices, manufacturing facilities or sales premises – comprises a part of most business projects in the area of relocating operations to the Czech Republic from other countries. This particularly involves non-residential spaces in office buildings, industrial facilities or shopping centres. Owners of such buildings provide tenants with access to either non-residential spaces without interior modifications (cold shell) or spaces that are fully equipped, albeit often with equipment installed at the behest of the previous occupant who left it behind when vacating the rented premises.

The purpose of this article is to draw attention to several legal and tax issues of renting and modifying such spaces on the part of tenants.

Agreements

Unlike in many Western European countries, the rules governing lease contracts related to properties such as those described above in the Czech Republic are very liberal. Czech law allows the contracting parties a wide berth to formulate their own agreement, and mandatory provisions from which the parties may not deviate are kept to a bare minimum. The parties can freely agree on the duration of the lease agreement or an extension option, length of the cancellation notice period, reasons for unilateral termination of the lease, etc.

Until recently this state of affairs, together with strong economic growth and related demand for rental properties practically throughout the entire Czech Republic, led to a very strong position of lessors in negotiating the conditions of lease agreements. This trend has been diminished somewhat by the recent economic development, resulting in much more favourable conditions for lessees. It can be recommended to those interested in rental spaces that they should dedicate due care and time to negotiating the terms and conditions of the lease agreement, because the resulting savings and improved legal standing may be very significant.

Missing signatures

The basic aspect of a lease contract is its paper. That sounds banal, but it is necessary to remember that any lease agreement not concluded in writing between the parties in the contract or other document will be invalid. Here it is necessary to draw attention particularly to the fine print (e.g. detailed technical or financial conditions), when in practice one party proposes to the other that the contractual conditions be modified without any linkage to the signed contract. The other party does not confirm this new agreement in writing, but either in the intentions of the proposal begins to act alone (e.g. undertakes the proposed payment) or does not object to the subsequent actions of the first party undertaken in accordance with its proposal.

The contracting parties, most commonly their employees, can get the impression that the agreement is concluded and the rental relationship will henceforth be governed only by these new terms and conditions. However, the reality is usually the exact opposite. If one of the parties subsequently calls into question the validity of such changes, it is very probable that in the case of a dispute it will be decided that the addendum was not part of the contract because it was not executed in written form. The parties then would not be bound by such an agreement and it would be necessary to fulfil the terms and conditions of the lease contract in its original wording or, as the case may be, return to fulfilment pursuant to such an agreement already in force.

Modification of spaces

Where modifications of spaces are concerned, this is fully a basic question of their tax deductibility.

From the legal perspective, it is necessary to emphasise that nearly every significant intervention or change in the manner of using any business property requires a construction permit. Here it is worth mentioning that it is not unusual for a decision on building approval to stipulate in detail the activities that are permitted in a particular space or building. Even if the new tenant does not undertake any modifications of the space but conducts an activity other than that stipulated in the building-approval decision, it is highly probable that a new permit will have to be obtained.

In the case of completed structures, obtaining new permits is not difficult if the tenant uses the services of an experienced engineering consultant. However, it is necessary to take into account that the issuance of a new permit takes a certain time during which the given space cannot be legally used for the new purpose.

With regard to legal certainty, it is necessary to consider that rental contracts always clearly stipulate who is responsible for obtaining the relevant structural-modification permit, the specific conditions for structural modification imposed by the lessor beyond the framework of the relevant legal regulations, and the time period in which the tenant has the responsibility to render modifications. It is always good to negotiate a sufficiently lengthy liberation period, in the course of which the tenant can perform modifications without paying rent.

Parking places

When renting business properties, it can be a problem to ensure that there is a sufficient number of parking places if the original tenant needed a smaller number of parking places than the new tenant. It is necessary to always explicitly stipulate in the contract the number of parking places reserved for the tenant and it is completely unreasonable to

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rely on the lessor's oral assurance or on the current state, when parking places in the complex are apparently unused and can thus be used without limitation. The lessor can at any time rent most of these places to new tenants in the building or complex, or to any other third party. If the contract does not ensure for the tenant a specific number of parking places, the tenant does not have any automatic claim toward the lessor for a sufficient number of parking places.

Income tax

Tenants usually modify non-residential premises in order to make them suitable for the intended business activity. In most cases, this involves extensive construction work that, from the perspective of the Income Tax Act, is considered to be technical improvement of the leased property. It can be stated simply that technical improvement consists in structural modification, renovation and/or modernisation of property if the cost of such work exceeds CZK 40,000 (EUR 1,600) in the given tax period.

Although in principle the owner of a property is entitled to amortise the value of such work, pursuant to Section 28(3) of the Income Tax Act a tenant (but not a sub-lessee) can write off the cost of the technical improvement of a property on the basis a written agreement (most commonly contained directly in the lease contract), even though in terms of private law this does not involve a separate asset.

A condition for this is that the tenant must pay the costs of the technical improvement and the owner may not raise the acquisition price of the property by the amount of such costs. The tenant can write off technical improvements performed by him in the same amortisation group in which the rented tangible asset is classified pursuant to the Income Tax Act. Where real estate or non-residential premises are concerned, the property can be classified in the sixth amortisation group containing hotels and similar accommodation facilities, administration buildings, retail outlets and underground shopping centres. Property classified in this group can be amortised over fifty years. Other properties and non-residential spaces are classified in the fifth amortisation group and are amortised over thirty years. Technical improvement of properties in such buildings can be amortised over either 30 or 50 years if the lease relationship does not terminate earlier than that.

In such a case, it is necessary to deal with termination of the lease and with the technical improvements undertaken in the context thereof. The easiest way to proceed is to anticipate, when concluding the lease contract, how the technical improvements of the subject of the lease will be disposed of.

From the lessee's perspective, the most advantageous approach to a settlement between the lessee and lessor upon the termination of the lease is for the lessor to pay to the lessee the net tax value of the technical improvement, which at the time of termination of the lease contract should be stated in the lessee's records pursuant to the Income Tax Act. The net tax value of the technical improvement can then be considered a tax-deductible cost in the full amount pursuant to the provisions of Section 24(2)(t) of the Income Tax Act. If the net tax value of the technical improvement is paid by the lessor only in part, the difference is not a tax-deductible cost for the lessee.

However, the termination of a lease relationship as described above is not very often accepted by lessors. Lessors, for whom modifications of the subject of a lease according to the need's of a specific lessee's business usually do not have any added value, often allow lessees to leave technical improvement in the leased property without payment, or they undertake to enter the subject of lease into their own costs in the original state prior to modifications.

In the first case, the total net tax value will not be a tax-deductible cost for the lessee. In the second case, it is necessary to divide the tax treatment between the value of the liquidated technical improvement and the costs of the removal of such technical improvement. Regarding the net tax value, pursuant to Section 24(2)(b) of the Income Tax Act this could be considered as a deductible cost. There are differing opinions as to whether tax-deductibility is conditioned by the payment of compensation. In accordance with other specialists, the authors of this article tend toward the first opinion. Where costs associated with liquidation of the technical improvement are concerned, the law does not explicitly govern such costs; therefore, in the event of a tax control it will always be necessary for the lessee to demonstrate to the tax authority that it involved expenditures required to achieve, ensure and maintain taxable income.

Transfer of technical improvements directly to the new tenant

In conclusion, we will describe the final possibility used in practice. It is necessary to reiterate that a technical improvement is not in itself a separate asset, even though for the purpose of the Income Tax Act it can, under certain conditions, be amortised for the period of duration of the lease as a separate tangible asset. In the terms of private law, a technical improvement remains together with the improved property under the ownership of the lessor.

It is thus not possible to transfer it between the lessee terminating the lease relationship and the new tenant. A possible solution is to completely change the lessee without terminating the original lease agreement with the lessor. This involves a succession of tenants on the basis of a three-party agreement between the lessor, the lessee that is leaving the rented premises, and the new lessee that will take over the lease and use the property. Although this situation is not explicitly governed by the Income Tax Act, in practice it is often used and, in our experience, recognised by the tax authorities.

The lessee terminating the lease relationship will obtain from the new tenant a financial settlement in whose amount the net tax value will be considered as a tax-deductible cost on the part of the original lessee.

On the part of the new lessee, the amount of this settlement will be considered as a new technical improvement that the new lessee can write off pursuant to Section 28(3) of the Income Tax Act. This solution is also favourable for the lessor, because it will not be necessary to resolve the problem of taxation possibly arising from non-monetary fulfilment in the form of a free-of-charge acquisition of the technical improvement.

However, it is clear that for the new lessee it will perhaps not always be acceptable to take over the rights and responsibilities of the original lessee without any changes thereto. Here lies the only opportunity for an agreement between the new lessee and the lessor within the framework of the aforementioned three-party agreement. It is highly improbable that the lessor will be willing to accept any further changes to the terms and conditions at a later time.

Describing in detail all aspects of leasing business properties would undoubtedly require a separate publication. The aim of this article was to draw attention to certain aspects of leasing business properties. Of course, specific situations must be handled individually with regard to the particular circumstances and interests of all parties involved.

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Illustrative photo

Technical Due Diligence:

Getting it right from the beginning

Technical due diligence is an ever-expanding activity connected with the preparation of investment projects. If, for the purpose of explaining the term "investment project", we use its generally known definition as a coordinated sequence of activities leading from the initial state A to the target state B with limited time and resources, we will find technical due diligence in the early stages of every project.

The primary objective of an investment project is appreciation of the invested resources, i.e. realisation of profit. At the beginning of an investment in a project in the real-estate sector, this most frequently involves acquisition of suitable land for the construction of the given project or, as the case may be, acquisition of land with a prepared project in various stages of completion. Recently, one of the most common models is the purchase of a land plot prepared for construction of the given type of property, such as several hectares of land in a fully equipped industrial zone, a municipal lot with a land-use ruling for an office-building project, the site of a former industrial plant following demolition and decontamination of the area, or perhaps a land plot for a family house with connections to utilities networks at its boundaries.

A range of Czech and foreign investors have already discovered that the preparation of an expansive and complicated investment project, particularly in a built-up area, is a long process indeed. With that in mind, in this article we will summarise the steps that every investor must undertake before receiving authorisation to build.

Foremost, this concerns the content of the future project and its accordance with the planned use of the site as set forth in the relevant urban development plan (UDP). An amendment of the UDP, if required, is a task spanning a year or perhaps two. Furthermore, it is necessary to conduct an environmental impact assessment (EIA), which in the case of a complex project in certain types of terrain would also take roughly a year. If the result of the EIA is satisfactory, the next step is planning proceedings, the result of which is a ruling on the placement of the structure. These proceedings are relatively specific with regard to the question of defining the scale of the proposed structure. The duration of the planning proceedings is stipulated by law and amounts to approximately 3.5 months. In practice, however, it is not uncommon for such proceedings to take six to nine months. The building permit is the final authorisation that is necessary to obtain before beginning construction. Within the context of construction planning, the investment is defined very specifically and reflects, to the maximum extent, the actual future form of the structure. Construction planning is a matter of two months in the case of most ordinary projects.

Based on the above-mentioned timeframes of individual proceedings, which are derived from common practice, it is logical that the majority of investors seek to ac-

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quire land with a valid land-use ruling for the type of structure that most closely corresponds to their investment project. For the planning proceedings, the given project's degree of completion at the design level is optimal particularly due to the sufficient generality in the qualitative specification and acceptable leeway provided in the description of the structure's function, as well as a range of already resolved issues such as those related to the terrain, connection to public roads and utilities networks, etc. The planning proceedings usually specify the fixed dimensions and volume of the future structure, which in most cases cannot be exceeded without undertaking an additional round of planning proceedings.

Of course, prior to acquiring land every investor must have a project and a vision of the final result. **Basically, the purpose of technical due diligence is to verify the suitability of the future acquisition from the perspective of the required parameters of the buyer's investment project.**

As an example, we can take an investment in a plant for manufacturing blades used in electric shavers, which is to be built on a greenfield site, or an investment in a hotel complex that will be located on the site of a former foundry near the centre of a regional capital.

If we look through the investor's eyes at the issue of acquiring a suitable plot of land or a plot with a pre-existing project, we will realise that the investor is entering into such a transaction with a range of questions. If we are also aware of the value of the acquisition expressed in monetary terms and the value of the future investment, which can be threatened by an unsuitable acquisition, delay or, in the extreme case, cancellation of the project, the investor's expenditure of effort, energy and resources in answering these questions before the final conclusion of the acquisition is more than worthwhile.

Questions can generally be divided into two basic groups: those of a technical nature concerning the land and the project, including its relationship to its surroundings, and questions of a legal nature concerning the sellers' relationship to the site, rights to the project, etc. We will now focus on questions of a technical nature.

Based on the information provided in the preceding paragraphs, **due diligence** can also be defined as **an activity resulting in answers to the investor's questions relating to the implementation of the investment project in the given location.** The investor can conduct due diligence, i.e. obtain answers to questions, with the assistance of a team of specialists or through most reputable companies engaged in project management or project preparation. There is a full range of such companies on the market and some of them offer a comprehensive portfolio of services that the investor can use even in subsequent phases of the investment project. The cost of conducting due diligence is usually a fraction of the acquisition's total value and constitutes a negligible item in comparison with the overall investment costs of the project.

For the correct execution of due diligence, and thus the answering of question, it is first necessary to properly define these questions. There is typically a broad array of types of investment projects. Nevertheless, the basic outline of the questions is similar for most kinds of projects. Therefore, in practice this basic outline is filled in with questions concerning the specifics of a particular project.

The basic questions include, for example, assessment of the availability of engineering networks and the necessary materials in the quality and amount required for the investment project and verification of the land-use limits set forth in the urban development plan for the given location.

Another set of basic questions concerns the already existing configuration of the land plot and its impact on the future investment, e.g. utilities networks traversing the future construction site and the necessity of relocating them or the condition of neighbouring structures and the necessity of their modification resulting from implementation of the project.

The final set of basic questions involves examination of the hitherto prepared documentation, experts' reports, surveys, measurements, issued permits, standpoints of the relevant authorities, etc., and a summarisation of the impacts thereof on the investment project. This group of questions also involves assessment of hitherto concluded contracts with the suppliers of project documentation, demolition work, etc., especially following resolution of the material and technical aspects.

The investor can also make favourable use of external firms conducting due diligence, particularly those with experience in the given location, in order to obtain a realistic assessment of risks connected with the legal clearance of later phases of the investment project.

If necessary, the basic outline of questions is expanded in order to fulfil the particular investor's requirements. In the case of an investment in a manufacturing plant, the investor will definitely want to know about the availability of workers in the area and the possibility of obtaining investment incentives from the programmes of agencies focused on supporting investment.

The result of properly conducted due diligence is a set of answers that unambiguously define the risks associated with implementation of the investment project that is the subject of the acquisition. Risks and their significance are precisely identified and described with a view to the investment project as a whole.

On the basis of this analysis, the investor is then able to make the right decision on whether or not to implement the investment project in the selected location, and is also able to formulate a strategy for subsequent steps. Herein lies the greatest added value of due diligence. With the right strategy in place, risks associated with the project can be minimised or eliminated. In practice, it is significantly easier for the investor to determine the next steps to be taken so that they can be properly scheduled and individual activities can be coordinated, thus preventing delays and repetition or duplication of certain activities and resulting in savings on investment costs that far exceed the costs expended on due diligence.

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Special report: Focus on relocation



Amazon Court, River City Prague

Find the right place!

The relocation process decidedly does not begin with the arrival of moving vans, nor does it end with the transfer of office equipment. Everything is preceded by careful preparation, which – regardless of the company's size – begins with the management's desire to find the right place to do business.

What comes to mind when we hear the word relocation? Of course, every company has different priorities. Some need to be in the general public's field of view; for others it is necessary to have their corporate headquarters at a prestigious address. Still other companies place emphasis mainly on the size of their facilities and the possibility to expand them as needed at a later date. Privacy and a creative environment for their employees are priorities for some firms. In recent years most companies have also been taking into consideration standards requiring their facilities and the buildings in which they are housed to be environmentally friendly and set in a green environment. Such structures are equipped with, for example, heat pumps, 100% fresh air for ventilation of offices spaces, solar heat is captured and used, etc. Simply put, the operation of such facilities requires significantly less energy (and thus less money) than older structures, while providing their occupants with a relaxed environment thanks to their green surroundings.

The comfort and wellbeing of all employees depends not only on the right choice of building, but also on the organisation of work and the facilities' layout. Whether this concerns an open-space floor-plan or individual offices depends fully on the decision of the company's management. A combination of both formats is commonly used. In most cases companies need to have representative spaces and suitably large meeting rooms and spaces designed specifically for particular work teams, which brings us to the division of spaces.

Here the future tenant can greatly benefit from the assistance of an architect, who must take into account the company management's requirements for the future use of the space and divide it accordingly while designing an effective layout. With few exceptions, companies today use the same standards for their offices in other countries where they operate. Therefore the architect must provide a design that fulfils the specific requirements of the given company. Furthermore, it is also necessary for the architect to take numerous aspects into consideration, such as the location of the building's directional orientation and height (number of floors), the impact of neighbouring buildings (e.g. blockage of sunlight), the view from offices, interaction and work processes of teams, the placement of elevators and stairwells in relation to rented spaces, the location of restrooms and storage areas, etc.

Only after the spaces have been divided in the architectural study is it possible to specify in detail the requirements for their further partitioning. The division of spaces is always done under the close supervision of the tenant's office manager, who ensures the correct placement of individual workplaces in order to achieve the simplest possible operation and communication in the future offices. It is sometimes necessary to ensure that conversations will not be heard outside of certain closed spaces, which refers to conference rooms and relaxation areas intended for concentrated creative work. Conversely, elsewhere it is necessary for individual employees to be able to communicate continuously and thus walls are rather a hindrance. In such cases, the given area is divided only visually, for example by a moveable partition screen or plants. Here the architect functions as a

Special report: Focus on relocation


Danube House, River City Prague

full member of the fit-out team. Fit-out refers to all work, from selection of the architect to the actual moving, and involves a combination of brainstorming, decision-making and activities that bring the original concept to life and give the offices their final form.

Now back to the architect, who at this time offers the tenant precisely those materials that architecturally suit the overall concept of the office, partition the space precisely according to the tenant's needs and, mainly, that have the physical and mechanical properties required by the tenant. Division of the space involves numerous related steps that must be taken in order for the office to function properly. These include, for example, modification of the electrical wiring, air-conditioning and heating systems, installation of window blinds, etc.

If the tenant is satisfied with the prepared project, contractors are then selected. There may be several contractors and the tenant takes on the burden of coordinating their work. In the opposite case, the tenant may use only one general contractor that is responsible for coordinating the work of individual subcontractors and for the overall quality thereof. The selection of contractors is usually conducted over two or three rounds. In many cases the documentation for selecting a contractor does not fully determine the scope, materials and qualitative standard required by the project, and thus certain incomparable items are contained in price offers submitted to the tenant. Of course, another reason for conducting several rounds in the selection process is to gain leverage when negotiating the final price.

Now we come to the fit-out stage, which, due to the numerous details, requires continual inspection of the work being carried out. Though such inspection is a matter of course, ordinary employees often fail to appreciate it. They cannot imagine everything that such ongoing inspection entails, beginning with the initial phase of selecting the location. It is interesting that future employees and visitors focus their attention mainly on the details, which either positively or negatively impact people's opinions of the facility as a whole.

Working out the details involves many factors, beginning with the selection of a contractor, whose quality can be inferred from previous experience with similar projects or through a list of references. The process continues with the due compliance of technologies and inspection on the part of the contractor, and ends with inspection on the part of the investor that is taking delivery of the work.

What is meant by the phrase "due compliance of technologies" used above? This concerns the measuring off of partition walls, inspection of related works, the correctness of wall anchoring, insulation, and many other aspects. This also involves "technical breaks", which are necessary breaks between related processes, which contractors gladly shorten due to time pressure.

In order to ensure that the technology is in full compliance, the technical supervisor (Quality Manager) conducts parallel inspections during the course of the fit-out process. The task of the Quality Manager is primarily to be very familiar with the building, to carefully monitor and supervise the designer and contractors, and, most importantly, to be aware of all potentialities. During the fit-out stage, there is not a lot of time for making and repairing mistakes. Each mistake can cause a delay that may prove fatal for the future tenant. After all, in the context of current practices on the rental-property market, who can withdraw from a lease contract on a whim? Withdrawal from such a contract requires a notice period of at least one month. It is clear that for the tenant the completion and moving dates are very strictly defined. The employee responsible for the complete relocation to the new facility has a time reserve, but it cannot be too long, because once the reserve runs out, the company will find itself making two rent payments. Therefore, the general contractor must strictly adhere to the completion deadline contained in the contractual conditions.

We can simply say that the technical supervisor points out the various risks at the beginning of the project and discrepancies during its implementation and at the end compiles a list of defects and deficiencies in the finished work. The general contractor must then remedy such defects and deficiencies within a stipulated timeframe. For the client, this is the final step before furnishing the offices (if this is not part of the general contractor's work) and moving into the new facility.

The fit-out process

FIND THE RIGHT PLACE!

↓

selection of the location

↓

selection of the architect

↓

project design

↓

selection of the general contractor

↓

construction
(+ removal of defects and deficiencies)

↓

equipping of offices

↓

final relocation

The company is a member of the Association for Foreign Investment (AFI). More information is available at www.afi.cz.

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Special report: Focus on relocation

2008 Investor of the Year awards announced



All award winners in the Investor of the Year

IVAX, IBM and CPN took the top honours in the ninth annual Investor of the Year competition organised by CzechInvest and the Association for Foreign Investment.

The pharmaceutical company IVAX, electronics giant IBM and the Czech biotechnology firm CPN are the top winners of the 2008 Investor of the Year awards, which were presented on June 23 at the Troja Chateau in Prague. The engineering firms Strojcar and IMOPRA were named the best Czech suppliers. ČEZ took the prize for greatest contribution to the development of investments and Weston Stacey, long-time executive director of the American Chamber of Commerce in the Czech Republic, received the Special Prize for Extraordinary Contribution to the Development of the Business Environment in the Czech Republic presented by the Association for Foreign Investment (AFI). The partner of the event was ČSOB. The awards were presented by Prime Minister Jan Fischer and the Ministers of Industry and Trade, Finance, and Labour and Social Affairs.



IBM Czech Republic, Most Significant Investor of the Year – Business Support Services

"The Czech Republic has built an outstanding investment environment. On average, the annual inflow of foreign investments to the Czech Republic amounts to more than four hundred euros per person, making us the most successful country in Central and Eastern Europe. Besides that, the share of reinvested profits is constantly growing, accounting for 68% of the total investment inflow last year. And that means that investors are glad to be here, as they continue to invest in further expansions, purchase new technologies and to hire more people," says Prime Minister Jan Fischer. "I would like to thank all of the winners and to congratulate them on making the right decision to entrust their investments to the Czech Republic."

The Investor of the Year awards ceremony was held under the auspices of Minister of Industry and Trade Vladimír Tošovský. "At a time when the global economy is not in the best shape, it is necessary to give maximum recognition to positive examples of firms which know that investing in the Czech Republic helps them to succeed in the face of global competition," says Vladimír Tošovský. "We offer skilled specialists, top-quality science and an environment that encourages innovation. A cursory glance at the names of the winners shows that they invested here in order to make maximum use of these three advantages to their own benefit as well as to the benefit of the Czech Republic."

> "We offer skilled specialists, top-quality science and an environment that encourages innovation."
>
> *Vladimír Tošovský, Minister of Industry and Trade*

Most Significant Investor of the Year – Manufacturing Industry
1st place: IVAX Pharmaceuticals s.r.o., a member of the Teva group (Opava)
2nd place: Panasonic Automotive Systems Czech, s.r.o. (Pardubice)
3rd place: VÍTKOVICE HAMMERING a.s. (Vítkovice, Ostrava)

Most Significant Investor of the Year – Business Support Services
1st place: IBM Česká republika, spol. s.r.o. (Prague)
2nd place: Monster Worldwide CZ s.r.o. (Brno)
3rd place: Covidien AG, organisational unit (Prague)

Most Significant Investor of the Year – Investment with the Greatest Innovation Potential
1st place: CPN spol. s.r.o. (Dolní Dobrouč, Ústí nad Orlicí)
2nd place: WITTE Nejdek, spol. s.r.o. (Nejdek)
3rd place: COMTES FHT a.s. (Dobřany, Plzeň)

Supplier of the Year – Contract of the Year
IMOPRA s.r.o. (Nivnice, Uherský Brod)

Supplier of the Year – Technological Benefit of the Year
STROJCAR s.r.o. (Opava)

Award for the Greatest Contribution to the Development of Investments in the Czech Republic
ČEZ, a.s. (Prague)

AFI Special Prize for Extraordinary Contribution to the Development of the Business Environment in the Czech Republic
Weston Stacey, executive director, American Chamber of Commerce in the Czech Republic



Weston Stacey, AFI Special Prize for Extraordinary Contribution to the Development of the Business Environment in the Czech Republic

"The year 2008 brought a fundamental change in the composition of new investments. For the first time ever, the Czech Republic gained more projects involving research and development or services than manufacturing. This is a huge success as well as confirmation of the quality of the Czech Republic. Of course, it also means that it was much more difficult to select the winners," says Alexandra Rudyšarová, acting CEO of CzechInvest.

> "Investors include not only domestic and newly incoming firms, but also companies that came to our country earlier and then gradually expanded their operations here."
>
> *Jan Bobek, Steering Committee Chairman, AFI*

"The large number of new projects in the area of research and development is not only evidence of the Czech Republic's attractiveness as an investment destination, but it also confirms the positive impact of incentives intended for this type of investments. Investors include not only domestic and newly incoming firms, but also companies that came to our country earlier and then gradually expanded their operations here," adds Jan Bobek, chairman of the Association for Foreign Investment.

Companies eligible for Investor of the Year awards were those that decided to invest in the Czech Republic in 2008. Information for evaluating individual projects was derived from the investment plans that each company submitted to CzechInvest. The nominated projects were assessed by an interdepartmental committee composed of representatives of CzechInvest and the Ministry of Industry and Trade.

ed.



Prime Minister Jan Fischer

For more information on this event please visit www.afi.cz.

Six months at the head of Europe



photo by Luděk Krušinský

**Štefan Füle,
Minister for European Affairs**

At the stroke of midnight on 1 July 2009, the Czech presidency of the European Union passed into the pages of history. The Czech Republic, which from January to June had been the "first among equals" in the EU, handed over the leadership of the Union to Sweden. The Czech presidency became a matter for historians, political scientists and journalist. In the coming weeks and months we will be able to read and hear a full spectrum of opinions ranging form the positive to the critical. But time will definitively show what remains from the Czech presidency in the context of history. I am personally convinced that our legacy consisting in our three priorities, the "three E's" – energy, Europe's place in the world, and the economy – will withstand the test of time.

This is otherwise already becoming apparent, immediately following the end of the Czech presidency. Representatives of Turkey, Bulgaria, Romania, Hungary and Austria recently signed an intergovernmental agreement on the Nabucco gas pipeline, which in 2014 should begin delivering gas from the Caspian Sea region and the Middle East to Europe, bypassing Russia and Ukraine. This is an extraordinarily important step on the path toward diversification of Europe's energy supplies, which the Czech presidency advocated from the very beginning. Paradoxically, a key motivating factor for us was the January gas crisis that arose on the Russian-Ukrainian border on 7 January 2009, when gas supplies from Russia to Europe were cut off. The crisis severely affected a third of EU member countries and another third were at least somewhat afflicted. Slovakia and particularly the Balkan states incurred very serious problems – industry faced a shortage of a strategic raw material and homes lost their heat supplies. Even the biggest sceptics recognise that as a mediator the Czech Republic rose to the occasion, when it fundamentally contributed to bringing about the quick resumption of gas supplies to the EU. This proved that the choice of energy as one of the three priorities of the Czech presidency was more than merely prudent.

The Czech presidency used – in the best sense of the word – the gas crisis to promote additional measures to improve the EU's energy situation. These measures included finalisation of the energy market's liberalisation under the Czech baton and approval of EUR 5 billion for the EU's economic revival, of which EUR 4 billion was intended for energy projects; EUR 200 million was obtained for the aforementioned Nabucco pipeline. To the best of its abilities, the Czech Republic thus did everything possible to help the European Union to avoid another energy crisis in future, or to at least have the necessary conditions to manage such a crisis.

In terms of foreign policy, energy projects are naturally of great importance, as they underpin the EU's relations particularly with the region to its east. This focus was also among the priorities of the Czech presidency and culminated with the signing of the Declaration on Eastern Partnership in Prague on 7 May 2009. The Eastern Partnership Project substantially strengthened relations with six Eastern European countries – Ukraine, Georgia, Belarus, Moldova, Armenia and Azerbaijan – and is concurrently an instrument for enhancing stability in the region.

A crisis also arose in the foreign-policy area – thus within the second priority, Europe's place in the world – when conflict erupted in the Gaza Strip in the first days of January. Within the realm of possibility, Czech diplomacy achieved the maximum: we negotiated the opening of humanitarian corridors and thus prevented an even larger catastrophe. In the area of foreign relations we presided over a full range of important summits, including one with the new American administration. Barack Obama's visit to Prague was one of the greatest successes of Czech diplomacy. With the eyes of the world fixed on Prague and the image of President Obama with the cupola of St. Nicholas cathedral in the background, a better advertisement for the Czech Republic would hardly be imaginable.

Of no less importance, during its presidency the Czech Republic had to wrestle with the economic crisis, the extent of which shocked the world. In this case we were in no way pleased that the choice of the economy as our third priority proved to be absolutely right. The crisis brought about rising unemployment and increased scepticism in economic circles, not only in Europe. In the face of early conflicting views across Europe, we resisted protectionist tendencies. At an extraordinary summit in March we put across an unequivocal rejection of protectionist practices and under Czech leadership the other member states agreed that their national anti-crisis measures would not be allowed to threaten the functioning of the internal market that the European Union had painstakingly built over more than half a century.

As the presiding country, we also had the exceptional opportunity to participate in a meeting of one the world's most important groups, the G20. In the role of observer, we were invited – for the first and probably last time – to the April G20 summit in



photo by Luděk Krušinský

President of the European Commission Manuel Barroso and Prime Minister Jan Fischer at a European Council press conference; Brussels, 18 June 2009



photo by Luděk Krušinský

Prime Minister Jan Fischer and French President Nicolas Sarkozy; state visit, France, 12 June 2009



photo by Luděk Krušinský

From left: President of the European Commission José Manuel Barroso, form Prime Minister and President of the European Council Mirek Topolánek, Swedish Prime Minister and later President of the European Council Fredrik Reinfeldt, and American President Barack Obama at the EU-US summit held in Prague on 5 April 2009

London, which was open only to representatives of the world's most influential economies accounting for 90% of global production and 80% of trade.

The change of government in the second half of the presidency did not in any way enhance it, but the Czech Republic dealt with the situation admirably. We presided over the June summit in Brussels, where the greatest diplomatic challenge awaited the new government. Not only was it necessary to convince the other EU member states to speak with one voice in proposing a president of the next Commission, but we were also faced with a far more demanding task: negotiation of the Irish guarantees, which will be instrumental in determining the fate of the Treaty of Lisbon, which upon ratification will become a document that will set out the future of Europe in the years to come. The Czech Republic presided over the finalisation of the text of the guarantees, which should make it possible to assuage Irish fears in key areas when repeating the referendum on the Lisbon Treaty in October this year without creating the necessity of reopening ratification of the treaty throughout the European Union.

During its presidency, the Czech Republic not only worked hard, but also gained a lot. At the head of the European Union, the country gathered invaluable experience in politics at the highest level, freed itself from the confines of its "home court" and saw up close the workings of politics at the European and global levels. Six months at the head of Europe and the nearly two previous years left the Czech political scene with a range of very good habits and got the country into very good shape. I believe that the Czech Republic will maintain this condition and use its newly gained experience in future.

And one more small detail, which has gone rather unnoticed – we have received numerous letters of thanks for perfect organisation. The Czechs have thus confirmed that they are skilful organisers, having been responsible for more than three thousand events of the most various kinds, more than three hundred of which took place in the Czech Republic.

Various critiques of the Czech leadership in the European Union most likely await us. However, while these are being read, we will keep in mind that the success of the presidency is connected primarily with specific results, of which the Czech Republic brought more than enough.

Štefan Füle,
Minister for European Affairs,
Czech Republic



photo by Luděk Krušinský

Outgoing Minister for European Affairs Alexandr Vondra hands the presidential baton to incoming Minister for European Affairs Štefan Füle with Prime Minister Jan Fischer in attendance; 8 May 2009

Nordic investment in the Czech Republic



Lego in the Czech Republic

Nordic countries are not among the largest foreign investors in the Czech Republic, which is perhaps not surprising as they are not among the largest trading partners of the Czech Republic either. Nevertheless, Nordic investment is very important for the Czech Republic as it provides much welcome diversification. Investments from Denmark, Finland, Iceland, Norway and Sweden complement and serve as an alternative to investments from countries from which one almost automatically expects major foreign investors to come, such as Germany, Japan and the United States. Perhaps everybody knows Nokia and Lego, but Northern Europe is home to other market leaders in many sectors. For example, the Swedish company Becker Acroma is the largest European producer of paints, varnishes and stains for surface treatment of wood, while Assa Abloy is the world's largest manufacturer of locks. Such companies enhance the diversification of the Czech economy both in terms of the nationalities of parent companies and in terms of the products and services they produce in the Czech Republic.

Building on tradition

Many Nordic companies came to the Czech Republic through the privatisation of formerly state-owned enterprises in the 1990s or through acquisition of already privatised companies a few years later.

We can take as an example the acquisition of the traditional Czech powdered-foods producer Vitana by Rieber & Sons of Norway in 1992. Vitana has a history dating back to the 1920s and is still one of the most widely recognised Czech brands. Nevertheless, at the time of its acquisition Vitana was adversely affected by its image of an old domestic producer with a limited portfolio of products as well as outdated equipment and production techniques. Rieber invested heavily in machinery and significantly changed Vitana's marketing approach. Thanks to foreign investment, Vitana has been able to maintain its position as a leading Czech brand in the face of competition from global and European brands such as Maggi and Knorr, as well as a significant number of jobs - it has around 800 employees.

Other examples of successful acquisitions of Czech companies are those carried out by SCA (Svenska Cellulosa Aktienbolaget), which established its presence in the Czech Republic by acquiring the Czech producer Obalex and expanded its activities to nine manufacturing facilities across the country, and Assa Abloy, which acquired the traditional lock manufacturer FAB, whose origins can be traced back to 1911. Assa Abloy has some 1,000 employees in the Czech Republic, of which more than 500 are employed by FAB, which has become the largest European producer of locks for buildings. Also the engineering giant ABB took part in privatisation in the Czech Republic and is now present in eight Czech cities and have more than 2,500 employees in the country.

DLF-TRIFOLIUM, the world's biggest clover and grass seed company, acquired the Czech seed company Slechtitelska stanice Hladke Zivotice, demonstrating that there are many areas for foreign investment in the Czech Republic, not just in the automotive industry, consumer electronics or the IT sector.

The most recent acquisition of a Czech company by a firm from Northern Europe is going ahead despite the global economic downturn. The Finnish company Metso, a supplier of equipment and auxiliary services to mining and construction companies, has recently acquired the Prerov-based firm PSP Slevarna. The Czech company, which employs nearly 400 people, produces finished manganese wear parts and has been a supplier of Metso for a number of years. "We acquired PSP Slevarna in order to improve our ability to supply wear parts to our customers in the mining and construction sector, in particular in Central and Eastern Europe. This unit was picked partly because of its location near our customers in the heart of Europe. We see good potential from the Czech Republic and the neighbouring countries and we want to develop our business there," said Heini Polamo, Metso's communication director, told Nordic News in the early summer of 2009.

New greenfield investments

Other Nordic investors have built new production plants on greenfield sites in the Czech Republic. Perhaps the most notable example of these is the renowned consumer electronics producer Bang & Olufsen. In early 2004, the company visited 40 industrial sites in three countries to select the location of its first manufacturing facility outside of Denmark. The town of Koprivnice in the eastern part of the Czech Republic, famous for the production of Tatra heavy-duty trucks, was selected and production started in late 2004 in temporary rented premises. The company's new plant opened in February 2006 and an R&D centre was established a year later. In that region, in Ostrava, the Finnish company Ruukki is engaged in the production of roofing sheets, lightweight purlins and liner trays for customers in the construction and engineering industries. Ruukki currently employs about 150 people in the Czech Republic.

On the other side of the Czech Republic, Kone of Finland opened its Czech plant in 2004 to produce lift doors and lift cages. In late 2008, the company announced plans for a new plant expand production. Other examples of greenfield investments are those of Arla Plast and Faerch Plast, the former producing solid extruded thermoplastic sheets in Kadaň and the latter producing plastic packaging in Liberec for the food industry.

Some Nordic companies entering the Czech Republic first operated in older temporary premises and later built new facilities on greenfield sites when the increasing production volumes required more space. DISA Industries, a Danish producer of air-blasting machines and foundry equipment, started production in the Czech Republic in rented premises in Pribram in 1994. A new 9,000 m^2 production hall was opened in 1998, followed by a 2,500 m^2 office building and another 2,880 m^2 production hall

in 2000, and finally a 3,600 m² warehouse completed in 2001. Similarly, ITAB Shop Concept, a Swedish producer of shop racks and other fittings built a new plant on a greenfield site in 2007 after it acquired a Czech producer of shelving systems and cash-register boxes in 2004.

Regional hub for Nordic companies

The Czech Republic's central location in Europe and well-developed transport connections to both west and east have encouraged many foreign companies to use the country as a hub from which they can serve their customers in multiple countries. Denmark's LEGO is a prime example of that. The company opened its first manufacturing plant outside of Denmark in Kladno, west of Prague, in 1999. In 2006 the company opened a 60,000 m2 logistics centre in Jirny, east of Prague. The logistics centre, LEGO's largest in Europe, handles two-thirds of LEGO's annual production and ships LEGO products to Europe, Asia, Africa and South America. This May the company started construction of a new 5,200 m2 warehouse in Kladno. The building will be connected to the existing manufacturing plant by a tunnel and will be used mainly to store products from LEGO's Hungarian factory, which will be either packed in Kladno or shipped to Denmark. As a result, it can be expected that the current number of employees will increase from the approximately 1,000 full-time and 200 part-time workers.

The aforementioned Becker Acroma, a Swedish manufacturer of paints and lacquers for the furniture industry, is also using the Czech Republic as a springboard to expand its presence to other countries. The company's subsidiary in Velke Mezirici was established in 1999 and serves as a laboratory for testing and preparing surface coatings of furniture. In addition, the Czech subsidiary is responsible for markets in the Czech Republic, Slovakia, Hungary, and Ukraine, as well as Slovenia and other countries of the former Yugoslavia.

Investors promote the image of Scandinavia

For a Czech person, lush coniferous forests are a typical image of Scandinavia, with which many also associate paper manufacturing, wood-processing and furniture production. Nordic companies active in these sectors have been doing their best not to disappoint and have come to the Czech Republic in large numbers. Some of these companies, including such well-known names of the paper industry as AssiDomän and Norske Skog, are sadly no longer operating in the Czech Republic as a result of divestment or takeovers by other companies. However, other firms are doing well and expanding their operations here. SCA Packaging, which employs over 750 people in nine manufacturing plants in the Czech Republic, opened a new design centre in Jilové u Děčina in November 2008. The centre focuses on the development of new packaging and cooperates with the local university.

StoraEnso of Finland has two wood-processing plants in the Czech Republic, in Zdirec nad Doubravou and Plana u Marianskych Lazni. In addition, the company opened its Software Development Competence Centre in Ostrava and joined the IT Cluster there. The centre focuses on development and maintenance of software systems for the whole corporation and its products are used in the company's global marketing and sales network.

Healthcare is also associated with Scandinavia, and Nordic investors in this sector have come to the Czech Republic too. AstraZeneca has a large sales and customer support presence in the country, and is also active here in clinical research and testing. In 2002 the Swedish company Mölnlycke became one of the first foreign investors to open a greenfield facility in the Ostrava region. In the first phase the company focused on the production of surgical kits; after expansion the manufacture of surgical devices was added to its production programme.

Icelandic icebergs

Investors from Iceland are not very visible in the Czech Republic, although their presence in the country is quite significant. The most significant example is Icelandair, owner of the second biggest airline in the Czech Republic, which at the time of this writing is the leading contender in the privatisation of the national carrier, Czech Airlines. Bakkavor Food, one of the world's largest producers of ready-to-eat meals, merged with the Czech market leader in frozen meals, Heli Food Fresh, in 2007. Heli Food Fresh specialises in the production of ready-to-eat meals, soups and sauces for the Central European market and does business with leading European retailers.

The reason for the low visibility of Icelandic investors may lie in the fact that they are usually investment funds or private investors rather than corporate investors, as is the case of other countries that are investing in the Czech Republic. For example, an Icelandic investment company, Nordic Partners, bought a majority stake in Hamé, the Czech Republic's largest producer of canned foods and a well-known brand name with a long history. To support further Icelandic investment in the Czech Republic, Straumur-Burdaras Investment Bank opened a subsidiary in Prague in September 2008.

Largest IKEA store in Europe

Of course, no mention of Nordic investments in the wood-processing industry would be complete without IKEA. It currently has two stores in Prague and one each in Brno and Ostrava, the Czech Republic's second and third biggest cities, respectively. The company announced in August 2009 that it plans to build a new store in Prague in 2010-2011 to replace one of the existing stores there. With 35,000 m2 of retail space, the store will be IKEA's largest in Europe. The company also plans to build a new store in Hradec Kralove in eastern Bohemia.

Another Swedish retailer with a strong presence in the Czech Republic is H&M (an abbreviation of Hennes & Mauritz). The company has stores in six Czech cities. Another Swedish fashion retailer, LINDEX, has opened four shops in the country. The boom in the retail sector over the past decade has attracted many foreign property developers to the Czech Republic, including TK Development of Denmark, which company specialises in the development and management of retail parks and shopping centres. Its Czech portfolio currently includes twelve completed projects and another one is under preparation.

Impressive growth

The current global economic downturn has obviously had an effect on Nordic investments in the Czech Republic. For example, the Finnish family-owned company Hartwall suspended plans to build a plant for manufacturing shopping carts and store containers in Bystrice nad Pernstejnem. The company announced plans to build the facility and create up to 300 new jobs in 2007, but this year asked for an extension of the option to purchase land in the municipal industrial park in Bystrice. Nevertheless, most Nordic investors seem to be doing well in the Czech Republic. The Trelleborg Group of Sweden has successfully built three manufacturing plants in the Czech Republic to produce components for the automotive industry, fluid solutions and elastomer compounds. Velux's Czech production unit, BKR, celebrated its ten-year anniversary in October 2008. Tieto (formerly TietoEnator) has more than 1,000 employees in Ostrava. The company develops and tests management systems and software for accounting and customer relations management.

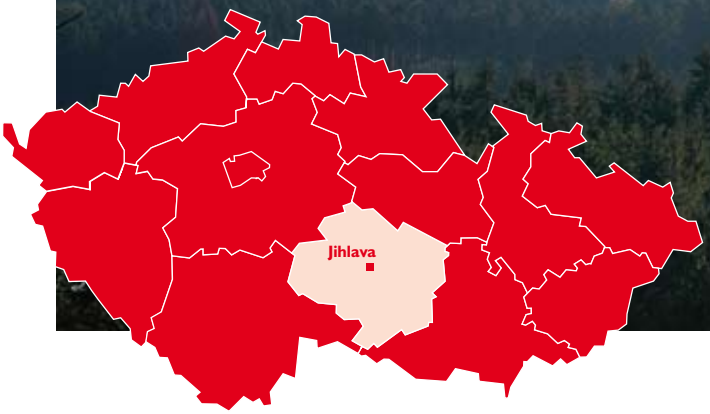
The Czech Republic certainly appreciates the positive effects Nordic investments have had on the Czech economy. In the past few years, Nordic companies such as Bang & Olufsen and Tieto have been awarded the Investor of the Year Award presented by the Association for Foreign Investment in cooperation with CzechInvest and the Ministry of Industry and Trade, and in 2007 twelve selected Danish investors were presented with a plaque honouring the top Danish investors in the Czech Republic.

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For more detailed information about Nordic investment in the Czech Republic, please visit www.afi.cz.

Vysočina Region:

beautiful country and industrial cooperation



The name of the Vysočina (Highlands) region is connected with the fact that it is spread over the greater part of the Czech-Moravian Highlands consisting of undulating country between the historical lands of the modern Czech Republic – Bohemia and Moravia. Vysočina covers an area of 6,796 km² and has a population of more than 500,000 inhabitants.

Basic data

Area	6 796 km²
Population (January 2009)	513,677
Population density (persons/km²)	75
Unemployment rate (June 2009)	8.6 %
Average wage (2009)	EUR 735

Source: Czech Statistical Office, Labor Office

The region's environmental conditions dispersed its population to more than a thousand settlements, which are connected by a dense road network. Vysočina is characterised by small villages lying in the vicinity of a local centre comprising a quiet small town of 3,000 to 10,000 residents. More than 20% of the region's population is concentrated in four cities; the regional capital, Jihlava, has a population of roughly 50,000. This general layout comprises a significant advantage for Vysočina, as it allows the region's people to enjoy the benefits of living in the country while still having access to an urban centre.

The advantage of having a healthy environment

Jihlava, the oldest mining town in the Czech lands, was one of the wealthiest cities of the Kingdom of Bohemia in the Middle Ages, thanks particularly to silver mining. Recently, in 2000, Vysočina become one of 14 regions, i.e. a separate administrative unit, whose shape is formed by the natural boundary of the Czech-Moravian Highlands. History has left a large number of monuments in Vysočina, of which three – the historical centre of Telč, the pilgrimage church of St. John of Nepomuk on Zelená Hora (Green Mountain) near Žďár nad Sázavou, and the Jewish Town and basilica of St. Prokop in Třebíč – are listed as UNESCO world heritage sites. The region's natural wealth comprises the Žďárské vrchy and Železné hory protected landscape areas, the Mohelenská hadcová step and Velký Špičák nature preserves, and numerous other, smaller nature preserves.


Žďárské Vrchy (www.czechtourism.cz)

The region's population in figures

Vysočina is administratively divided into five regional districts, 15 administrative areas of municipalities with expanded competency and 26 districts governed by municipal authorities. The basic administrative units are municipalities, of which there are 704 in the region (as of 1 January 2005). The average population of municipalities in Vysočina is 730 inhabitants, the smallest of all regions in the Czech Republic. Municipalities with fewer than 500 inhabitants are the most numerous in the region. As of 1 January 2008, the region had 513,677 inhabitants, the fourth smallest population among the regions of the Czech Republic.

One of the Vysočina region's key advantages is its clean, well-preserved environment, featuring healthy, expansive forests, which combined with aquatic riches in numerous places create a unique curative climate. Due to the region's natural and transportation conditions, companies established here are mainly those that do not pollute the environment, and new investments are implemented according to stringent norms. It can be said that this region is an island of healthy purity between three agglomerations – Prague, Brno and Vienna – at least partly due to the fact that it was the first region of the Czech Republic to become a member of the World Health Organisation's Healthy Cities and Regions Programme.

Vysočina is home to a range of interesting cultural events, some of which have a nationwide or even international character. Jihlava annually hosts a gathering of vocal choirs from around the world in connection with the International Festival of Choral Art, a competition of mixed-voice chamber choirs. The city of Telč is an important organiser of cultural happenings in the region. Besides the Holidays in Telč Festival, the city also hosts the European Meeting of Folk Ensembles. Another popular event is the International Documentary Film Festival held in Jihlava.

The region is located at the transportation and population centre of the country. Vysočina is traversed by the D1 motorway, Czech Republic's main transportation artery. The economy of the region's eastern section is influenced by the Brno metropolitan agglomeration, whereas the western section is a sub-region of Prague. Vysočina's strategic location has therefore attracted a range of foreign investors in recent years.

At the end of 2007, 98,000 enterprises were present in the Register of Economic Entities in the region. Thus, within the context of the Czech Republic Vysočina ranks ahead of the Karlovy Vary region in next to last place, which indicates a low degree of commercial activity in relation to the population. The greatest number of economic entities in the regions are in the Žďár nad Sázavou district and the fewest in the Pelhřimov district.

Industry in the region

Industrial production is represented in the region by mechanical engineering and metal-working, textile manufacturing, wood-processing and the food sector. Industrial centres are former district seats and other municipalities – Chotěboř, Světlá nad Sázavou and Ledeč nad Sázavou in the Havlíčkův Brod district; Polná, Třešť and Kostelec in the Jihlava district; Humpolec and Pacov in the Pelhřimov district; Dukovany and Moravské Budějovice in the Třebíč district; and Velké Meziříčí, Nové Město na Moravě and Velká Bíteš in the Žďár nad Sázavou district.

The mechanical-engineering sector is dominated particularly by lock manufacturing, precision engineering and the automotive industry. The most significant companies in this area are Bosch Diesel, První brněnská strojírna Velká Bíteš, PBS Turbo, Agrostroj Pelhřimov, Automotive Lighting, Moravské kovárny, Mann + Hummel, Valeo Compressor Europe, ŽĎAS, Jihlavan and JOPP Automotive, among others. The region is home to the Vysočina Precision Engineering Cluster, whose purpose is to build a prestigious, modern development and production base for precision engineering and lock manufacturing based on high-quality human resources and state-of-the-art technology.

The wood-processing industry has a strong presence in the region, as Vysočina has the biggest supply of timber in the Czech Republic. Prominent firms in this sector are, for example, Sapeli, Czech LANA, Stora Enso Timber Ždírec, Kronospan CR, and Dřevozpracující družstvo (Wood-Processing Cooperative) in Lukavec. This industry also features a sectoral association in the region, the Vysočina Wood-Processing Cluster, which is focused on the economical and effective processing of timber in order to contribute to the region's development through specialisation and cooperation between forestry and wood-processing firms.

Food production is another important sector underpinned by Vysočina's agricultural potential. This primarily involves the processing of milk and meat, while beer production also plays


Třebíč (www.czechtourism.cz)

The region's economic situation in figures

In recent years the region has accounted for 4.2% of the Czech Republic's GDP, which ranks it twelfth among the country's regions. Vysočina fares better in terms of GDP per capita, occupying eighth place; in 2007 this indicator totalled CZK 287,879, i.e. 84.2% of the national average. In a similar comparison with the European Union, we find that the region's GDP per capita is 68.4% of the EU27 average. According to data on 48 companies with 100 or more employees, industrial enterprises in the region earned CZK 125 billion for their own products and services in 2007, which was 11.6% more than in 2006.

a not insignificant role in the sector. The most well-known firms in this area are, for example, Kostelecké uzeniny (meat-processing); cheese producers BEL sýry Česko (formerly Želetavské sýrárny) and Pribrina; breweries Pivovar Jihlava, Měšťanský pivovar Havlíčkův Brod, Rodinný pivovar Bernard; Poex Velké Meziříčí (cereal products); and ZON (soft drinks).

Vysočina has a long tradition of glass production, which currently involves smaller firms.

Infrastructure for science and research is closely connected with the development of companies and inflow of investments. The region is home to the Havlíčkův Brod Business and Innovation Park, which operates under the auspices of the Potato Research Institute. In conjunction with the Vysočina regional authorities and the Jihlava College of Polytechnics, the city of Jihlava is endeavouring to build a science and technology park. The network of business incubators operated in the Třebíč district also fulfils the important role of promoting the development of small manufacturers and industrial firms.

Science and research and the resulting development of companies' innovation potential are closely tied to tertiary education. There are two such institutes of higher learning in the Vysočina region. The first of these is the Jihlava College of Polytechnics with the following departments: Applied Informatics, Computer Systems, Travel Industry, Finance and Management, General Nursing and Obstetrics. The Jihlava College of Polytechnics cooperated with the Brno University of Technology and Bosch Diesel on the implementation of a combined mechanical-engineering bachelor study programme from the academic years 2005-2006 to 2007/2008. The school also conducts life-long continuing education programmes, including the University of the Third Age. The region's other institute of tertiary education is the University of West Moravia in Třebíč with the following departments: Management and Marketing, Applied Information Technologies and Information Management. The school is involved in a project aimed at establishing and operating business incubators, and is the lead partner preparing a project focused on analysis of the Vysočina region's research and innovation potential and establishment of a research-driven cluster that in future should coordinate the region's research and innovation strategy. The university is also involved in the IANUS project involving the development of language adaptability and reduction of language and personal barriers between employers and employees in the Czech-Austrian border region, which is being prepared for the Czech-Austrian Cross-Border Cooperation Programme in conjunction with the Hollabrun Pedagogical Institute.

Kamila Malá,
CzechInvest



Telč (www.czechtourism.cz)



Žďár (www.czechtourism.cz)

Vysočina's strengths in relation to investment inflow

+ favourable location within the Czech Republic and Europe as a whole; traversed by the D1 motorway
+ important location between Prague and Brno
+ easy accessibility
+ strong tradition of industrial production: wood-processing, glass, mechanical engineering, metal-working, textiles, furniture, food
+ industrial land, business opportunities (25 industrial zones)
+ very dynamic development
+ broad departmental structure of secondary education
+ sufficient secondary-school capacity
+ significant sporting events (Golden Ski in Nové Město na Moravě, Golden Horseshoe in Humpolec, Aris Jihlava swimming match, Horácká rallye car races in Třebíč)
+ large number of cultural monuments
+ clean air – one of the cleanest regions in the Czech Republic
+ 124 protected landscape areas and nine nature preserves
+ high degree of forestation (average forestation in Vysočina is 30.1%)
+ healthy forests unaffected by emissions
+ high timber-production capacity

Jihlava College of Polytechnics
A new school aims high







The Jihlava College of Polytechnics (JCP) is the first public non-university institute of higher learning in the Czech Republic. The school was established in June 2004 thus continuing the uninterrupted tradition of quality higher education in Jihlava. The institution's facilities originally housed the University of Agriculture and later a higher professional school that was built in the university style with focus on later transformation into a public college, which was established with very strong support from the city of Jihlava and later from the newly established region of Vysočina. Ladislav Jirků Ed.D. was named the school's first rector.

The college is housed in a renovated and well-equipped building in the centre of Jihlava, the regional capital. Besides language, computer-science and other classrooms, a library and study hall are also available. Dormitory capacity is provided by a sufficient network of private housing providers.

Unlike universities, a non-university institute of higher learning is not divided into faculties and creative activities are conducted within individual departments. Emphasis is placed on the quality of education and, from the perspective of the state accreditation body, in the case of other creative activities the requirements do not differ from those placed on universities.

JCP offers three-year bachelor degrees in accredited programmes in attendance and combined forms of study, as well as life-long continuing education. Various types of stipends are available during the course of study, and the school also offers a foreign-exchange programme. After passing the state leaving examinations and defending their theses, students receive a bachelor degree and the possibility of further study in related master programmes at universities in the Czech Republic or abroad.

The school's practical orientation is emphasised in all study programmes. During the course of instruction, students undertake 18 weeks of practice in their chosen field in order to become familiar with the requirements of future employers and to compare theoretical and practical knowledge. As a result, the time required for training when they enter a new job after graduating is relatively short.

The school's first graduating class of 100 students received their diplomas in 2008. JCP currently has more than 2,000 students; in the long term the school would like to have a student body of 3,000 in all departments and forms of study. Various professional courses are offered in the area of life-long continuing education, whereas the University of the Third Age, intended for people over the age of 50, is very popular.

The Jihlava College of Polytechnics has an interest in maintaining, enhancing and developing relations with both the professional and lay public, business entities, state administrative bodies and local government. The JCP library cooperates with the Goethe Institute in Prague, the Austrian Cultural Forum, Ackermann Gemeinde Stuttgart, the Czech-German Fund for the Future and the German and Austrian embassies. The college is also involved in the international Lifelong Learning Programme (Erasmus), in which it organises academic stays abroad for students and teachers as well as internships in Belgium, Denmark, Estonia, Finland, Lithuania, Germany, Poland, Austria and Spain. It reciprocates by hosting exchange students from abroad. The school's creative and scientific activities are reflected in the preparation and implementation of various types of projects, publications, conferences and seminars. A significant aspect of the school's activities is its use of EU structural funds and operational programmes for the 2007-2013 period focused on the areas of research and development, innovation and education.



Hana Pospíchalová,
Jihlava College of Polytechnics

More information about the Jihlava College of Polytechnics is available at www.vspj.cz.

JCP study programmes and departments

The college currently offers three study programmes comprising six departments in which students can earn a bachelor degree:

Economics and Management
- Finance and Management
- Travel Industry

Electrical Engineering and Informatics
- Computer Systems
- Applied Informatics

Nursing
- General nursing
- Obstetrics

Students can receive combined instruction in the Departments of Finance and Management and Computer Systems.
Additional study programmes and departments are continually being developed.


Ostře sledované vlaky (Closely Watched Trains)



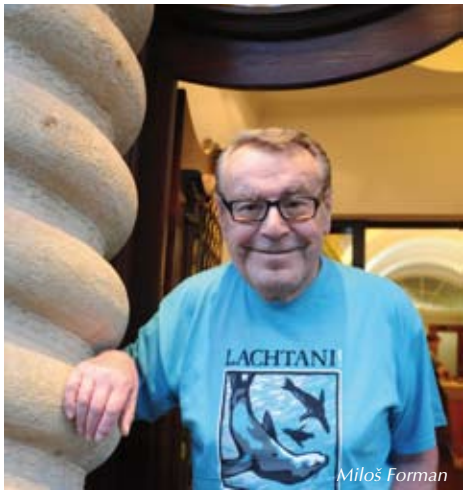


Getting to know Czechs through their films

Czechs love films, their own most of all. So it is no wonder that in recent years domestic productions have comprised a significant proportion of the most popular films shown in Czech cinemas. Of course, this is in part an expression of national pride, though on the other hand it is necessary to point out that in recent times Czech filmmakers and actors have built up the local film industry's reputation in the world. This is demonstrated by the numerous Oscar nominations (and several wins) garnered by Czech films and the growing number of prestigious international festivals that take place in the Czech Republic.

Czech films have long been popular on the international stage, having gained enormous respect particularly during the period of the Czechoslovak New Wave in the 1960s, when rather non-traditional, humorous films addressed topics such as love and interpersonal relationships or criticised socialist society under the communist regime in power at that time and captured the hearts of viewers around the world. However, this cinematic renaissance came to an abrupt end with the suppression of the Prague Spring movement in 1968, when Warsaw Pact forces invaded the country and the difficult period of normalisation began. Czechoslovak films of this period and their makers managed to keep the respect of viewers in spite of the tragic events of the period. Of the eight Oscar nominations for Czech films, several were for films produced during this time, while a Czechoslovak film received the highest honour symbolically in 1968. Ostře sledované vlaky (Closely Watched Trains) by the Czech director Jiří Menzel won the Oscar for best foreign-language film that year and the American weekly Time ranked it as one of the 100 best films of all time.

Besides the aforementioned Jiří Menzel, the Czechoslovak New Wave gave to the world other outstanding cinematic personalities including such luminaries as Věra Chytilová and Miloš Forman, the latter of whom perhaps needs no introduction. Following the events of 1968 Forman emigrated to the United States and has since made a number of memorable films such as One Flew Over the Cuckoos Nest from 1975, which starred Jack Nicholson and won five Oscars, and 1984's Amadeus, which was



Miloš Forman

Overview of the most important film festivals in the Czech Republic

Karlovy Vary IFF	www.kviff.com
Zlín Film Festival for Children and Youth	www.zlinfest.cz
Jihlava International Documentary Film Festival	www.dokument-festival.cz
One World	www.jedensvet.cz
Fresh Film Fest	www.freshfilmfest.net
FEBIOFEST	www.febiofest.cz
Uherské Hradiště Summer Film School	www.lfs.cz
Anifest	www.anifest.cz
Zlín Dog	www.zlinskypes.cz

filmed in Prague. Forman's The People Vs. Larry Flynt from 1997 also enjoyed considerable success, winning the Golden Globe for best director that year. Since 2007, visitors to the National Theatre in Prague have been able to see the jazz opera Dobře placená procházka (A Walk Worthwhile) written by the very popular Czech composers Jiří Šlitr and Jiří Suchý and directed by Forman with his son Petr.

Soon after the fall of the Iron Curtain, Czech filmmakers burst onto the international scene for the second time and the world rediscovered Czech cinema. In 1997, director Jan Svěrák won the Oscar for best foreign-language film for Kolja (Kolya), an examination of the complicated relationship between a youthful middle-aged musician and a young Russian boy who come to depend on each other in the tragicomic circumstances of pre-revolution Czechoslovakia. From the current period we must mention the success achieved at the Cannes International Film Festival by the young director Zuzana Špidlová, who this year took the prize for her film Bába (Granny) in the Cinéfondation category intended for film schools and young filmmakers.

Since 1993 the Czech Republic has also had its own award to honour outstanding films – the Czech Lion, a crystal statue in the shape of one of the country's national symbols. Films are evaluated by a jury composed of members of the Czech Film and Television Academy. In recent years, Czech Lions have been awarded to such films as director Jan Hřebejk's Musíme si pomáhat (Divided We Fall), which was also nominated for an Oscar, Jiří Menzel's Obsluhoval jsem anglického krále (I Served the King of England) and last year's Karamazoví (The Brothers Karamazov) by director Petr Zelenka.

Other prestigious events in the world of current Czech cinema include a full range of significant film festivals. Among these, the Karlovy Vary International Film Festival is the undisputed king, as it is the biggest and most important festival in Central and Eastern Europe, attended by the biggest names in cinema from around the world. This year's featured guests included Antonio Banderas and John Malkovich, while in recent years the festival has been graced by the presence of such cinematic icons as Robert De Niro, Renée Zellweger, Leonardo DiCaprio, Scarlett Johansson, Keira Knightley and Sharon Stone. The festival's origins date back to 1947, though it has gained its current impressive stature since 1994. The festival is also extremely popular among young Czechs, who perceive it as the best way to start the summer, travelling in their thousands to see outstanding films in an unforgettable atmosphere. This year's winner of the festival's Crystal Globe for best film was the Danish production Frygtelig Lykkelig (Terribly Happy) by director Henrik Ruben Genz. The Crystal Globe for best actor went to the young Czech star Jiří Mádl for his role in the film Děti noci (Night Owls), directed by Michaela Pavlátová, while the best-actress prize was awarded to Martha Issová for her performance in the same film.

Besides the Karlovy Vary IFF, a number of other festivals have taken on greater importance in recent years. Though small by comparison, these events are a guarantee of high-quality cinema. The International Film Festival for Children and Youth has been held yearly since 1961 in Zlín, which has been considered a Mecca of children's film for nearly half a century. Every year the festival attracts tens of thousands of children as well as adults, and its popularity is growing year by year. Another outstanding cinematic event is the Jihlava International Documentary Film Festival, which during its short time in existence has become the biggest festival of its kind in Central Europe, which is particularly

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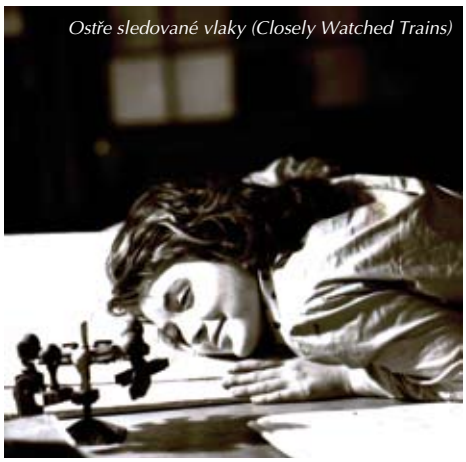
Postřižiny (Cutting it Short, 1981)
Báječná léta pod psa (Wonderful Years That Sucked, 1997)
Hoří, má panenko (The Fireman's Ball, 1967)
Slavnosti sněženek (The Snowdrop Festival, 1984)
Pelíšky (Cosy Dens, 1999)
Kolja (Kolya, 1996)
Obecná škola (The Elementary School, 1991)
Kouř (The Smoke, 1991)
Musíme si pomáhat (Devided We Fall, 2000)



Antonio Banderas at the Karlovy Vary International Film Festival

The most popular Czech films according to Czechs

1.	Světáci (Men About Town, 1969)
2.	Čtyři vraždy stačí, drahoušku! (Four Murders Are Enough, Darling!, 1970)
3.	Což takhle dát si špenát (A Nice Plate of Spinach, 1977)
4.	Šíleně smutná princezna (The Madly Sad Princess, 1968)
5.	Marečku, podejte mi pero! (Mareček, Pass Me a Pen!, 1976)
6.	Tajemství hradu v Karpatech (The Mysterious Castle in the Carpathians, 1981)
7.	Pane, vy jste vdova! (You Are a Widow, Sir, 1970)
8.	Jáchyme, hoď ho do stroje! (Joachim, Put It in the Machine!, 1974)
9.	Vrchní, prchni! (Run Waiter Run!, 1981)
10.	Limonádový Joe aneb Koňská opera (Lemonade Joe, 1964)


Ostře sledované vlaky (Closely Watched Trains)


Dobře placená procházka, Karlovy Vary International Film Festival

remarkable considering that it was established by a group of students at the local high school. The very popular Jeden svět (One World) festival of documentary films about human rights has been organised each year in Prague since 1999. Held annually in Karlovy Vary and taking a somewhat different approach, the Fresh Film Fest is an international event focused on innovative works from new, progressive artists. And the icing on this cinematic cake is the annual FEBIOFEST established in 1993 by the independent film and television production company FEBIO. During the complicated transition from communism to democracy, FEBIO gave nearly all significant Czech film makers, including Věra Chytilová, Juraj Jakubisek, Jiří Menzel, Jan Hřebejk and others, the opportunity to practice their trade. The festival, which was originally organised with practically no money but with tremendous enthusiasm, has become an important cinematic event that still retains its original motivation: everything for the viewers.

Whoever wants to take a tour of Czech film, so to speak, will not be disappointed, whether they soak in the atmosphere of the Karlovy Vary IFF or organise their own private festival at home. Besides the fact that Czech films are truly unique thanks to their tender humour, irony and profound storylines, they also portray the society and individual historical periods of the Czech Republic and Czechoslovakia perhaps better than any travelogue or tourist guidebook could ever do.

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-- Business infrastructure development
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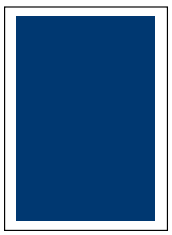
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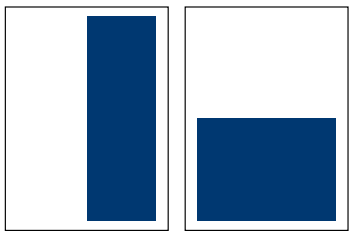
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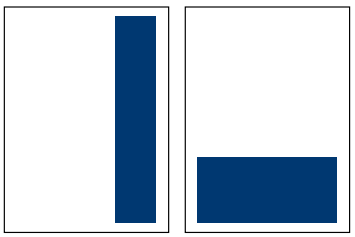
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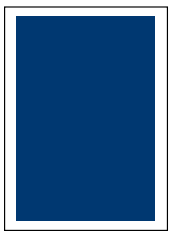
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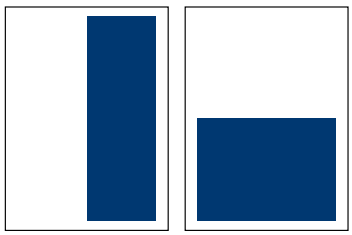
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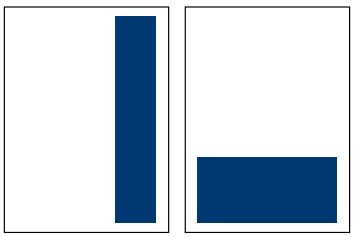
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