

Czech Trade Focus

Good News from the Czech Commercial Offices in the United States / January 2004

Prague Stock Exchange Czech Automotive Industry Software Developing Companies in the Czech Republic Czech Business Incentives Scheme Update Companies and Business

CZECH ECONOMIC OUTLOOK

► GDP grows by 3.4%

The Czech economy grew by 3.4% in the third quarter. The growth exceeded earlier predictions and was the fastest since the second quarter of 2001. The GDP growth was driven mainly by household consumption and exports. In the period, Czech households spent over 7% more in real terms than a year ago. The spending boom has been fuelled by fast growth in real wages, which was coupled with virtually non-existent inflation for most of the year. Another stimulus was record low interest rates, which have sparked a consumer credit boom.

► 2003 inflation lowest in ten years at just 0.1 percent

Inflation in the CR was at its lowest level in ten years in 2003. The fall in inflation, as measured by CPI, was helped by declining prices of consumer products. The inflation rate last year was just 0.1 percent. Ten years ago inflation stood at 20.8%. However, a steep rise in inflation is expected to occur in early 2004 due to tax changes and adjustments in regulated prices.

► Crown firms towards U.S. dollar, calm versus euro

Czech national currency reached its historic high towards USD at CZK 25.29/\$. CZK is expected to be trading at 30.40- 31.50/EUR and the dollar at CZK 25.60.

► Producer prices up, industrial output grows

Czech producer prices grew faster than expected, rising at the end of 2003 due to higher prices for food, oil and chemicals. As compared with the same period last year, the producer price index (PPI) increased to 0.4 percent, which was the first year-on-year increase in nearly two years. Meanwhile, Czech industrial output grew by 5.2 percent year-on-year in October, level with September's figure.

Economists had expected a slightly faster, 5.4 percent rise.

► Record unemployment rate of 10.3 percent reached in December

Unemployment in the Czech Republic hit an all-time high of 10.3 percent in December. Almost 550,000 Czechs were out of work last month, some 20,000 more than in November. That increase was due to a winter fall-off in construction projects and seasonal jobs ending. Analysts expect unemployment figures to improve after the country's EU accession, when Czech manufacturing should have more orders from European partners.

► State debt up to CZK 493 bln

The nominal value of the state debt totaled CZK 493.2 bln at the end of 2003. The speed of debt growth accelerated: in 2002 state indebtedness rose by CZK 50 bln, while in 2003 it increased by CZK 97 bln. Economists predict the current trend will continue in the coming years. In 2004, the state debt is likely to exceed CZK 600 bln.

► Czech stock prices soar in 2003

The Prague Stock Exchange (BCPP) has enjoyed one of its best years in history as both stock prices and trading volumes have jumped in the year-to-date. The headline index PX 50 has put on more than 40%, the highest growth ever. The total turnover rose by 30% to CZK255 billion, close to the record-high seen in 2000. Among blue chips, the oil group Unipetrol has added 88% due to the upcoming privatization, and the Ceske radiokomunikace (telecom company) has put on almost 82%. Compared with neighboring financial markets, the Czech market has also done well.

► November trade deficit up to CZK 8.3 bln

The November foreign trade deficit grew from CZK 1.7 bln m/m to CZK 8.3 bln. In y/y comparison, the deficit rose CZK 2.4 bln. The unfavorable trend showed in trade

with both primary and processed products. Economists describe the growing deficit at the end of 2003 as a common phenomenon. However, the total 2003 trade deficit is expected to range from CZK 65 bln to CZK 70 bln, below last year's figure.

► Business confidence cools down in November

Czech business confidence cooled in November after a sharp rebound in the previous month, while consumer confidence picked up from its lowest in more than three and a half years. The Czech Statistic Office said its business confidence index dropped to a seasonally adjusted 104.1 from October's 106.1, which was its highest in nearly two and a half years. The consumer confidence index edged up to 87.7 from October's low of 84.5.

► Electricity and gas prices go up at the beginning of 2004

The Czech power sector regulator announced it would hike electricity and natural gas prices from January to reflect rising market prices and costs related to power supplies. The electricity prices for residents should rise by an average of nearly 4 percent, prices for both small and large enterprises by 3 percent. The regulator also approved an average 1.23 percent hike in gas prices, due to higher transport and storage costs.

► Seasonally adjusted construction output at constant prices up 0.2 % m-o-m.

Total construction output at constant prices increased by 14.5% year-on-year, or 13.1% after working days adjustment. Construction output continued to grow in all of its branches, but mainly in repairs of civil engineering construction. A rising volume of housing construction work also fuelled the growth.

CZECH REPUBLIC'S MAJOR TRADING PARTNERS (CZECH STATISTICS)

Country	Exports in million USD	2003/2002 index	Shares in total exports in %	Imports in million CZK	2003/2002 index	Shares in total imports in %
Germany	14,435	108.5	37.0	13,285	107.5	32.9
Slovakia	3,060	111.6	7.8	2,110	107.5	5.2
Austria	2,446	122.8	6.3	1,732	106.1	4.3
Great Britain	2,151	102.3	5.5	1,121	92.2	2.8
Poland	1,869	108.3	4.8	1,651	109.7	4.1
France	1,852	110.1	4.7	2,021	112.0	5.0
Italy	1,731	119.7	4.4	2,135	103.6	5.3
Netherlands	1,593	114.2	4.1	879	99.1	2.2
USA	985	103.2	2.5	1,316	106.0	3.3
Russia	473	96.5	1.2	1,852	115.0	4.6
China	179	165.3	0.5	1,943	121.6	4.8

PRAGUE STOCK EXCHANGE

History

In spite of a very modern history, the tradition of Czech exchange business is very rich. Its foundation was laid in the middle of the 19th century. Originally, it was corn and agricultural commodities that were traded in weekly markets. The first organized trade in commodities took only place in Prague in 1861. The Prague exchange was then very successful in the concentration of sugar trading. In fact, it was a central marketplace for that commodity within the entire Austrian - Hungarian Monarchy.

In the period between WWI and WWII, the exchange was undergoing a dynamic boom which was violently interrupted by WWII. After the war, the door of the exchange did not open.

The tradition of Czech exchange business found its continuation in 1990 when the Preparatory Committee for the Foundation of the Prague Stock Exchange was set up. On November 24, 1992 the Prague Stock Exchange was formed, and trading was opened on April 6, 1993.

Investing at the Prague Stock Exchange

The PSE is the most important securities market organizer in the Czech Republic. The General Meeting of Shareholders is the supreme body of the Exchange, the Exchange Chamber is the Exchange's statutory body which manages its operation. The Prague Stock Exchange is affiliated as the Associate Member of the Federation of the European Securities Exchanges (FESE).

In the period from April 6, 1993 to December 31, 2002, the value of Exchange trades totaled CZK 8,390 bn (\$300 bn). In this figure, shares units accounted to 19% and bonds for 81%. The most successful long - term sectors were transportation and communications, finance and banking sector, and power generation accounted for 70.2% of the total trade value.

Currently, there are 52 shareholders and 32 members of PSE. For trading in the PSE, you may want to contact the largest Czech broker firms such as:

ABN AMRO Bank, N. V.	www.abnamro.com	Atlantik financni trhy, a. s.	www.atlantik.cz
Czech National Bank	www.cnb.cz	Czech Savings Bank	www.csas.cz
Deutsche Bank, a. s.	www.db.com	HVB Bank Czech Republic	www.hvb.cz
ING Bank	www.ing.com	Komerční banka, a. s.	www.kb.cz
Patria Finance	www.patria-finance.cz	Raiffeisenbank, a. s.	www.raiffeisenbank.cz
Wood & Company	www.wood.cz	Zivnostenská banka, a. s.	www.ziba.cz

Exchange Records

The largest total yearly trade value CZK 1,987.2 bn in 2001 (\$71 bn)

The largest trade value on the share and unit market	CZK 264.1 bn in 2000 (\$9.4 bn)
The largest yearly trade value on the bond market	CZK 1,858.4 bn in 2001 (\$664 bn)
The largest total monthly trade value	CZK 303.1 bn in November 2001 (\$10.9 bn)
The largest total daily trade value	CZK 27.281 bn on November 9, 2001 (\$974 mil.)
The largest daily trade value increase of the PX 50 Index	16.64% on November 4, 1993
The largest daily trade value decline of the PX 50 Index	7.29% on March 22, 1994

SKODA ROOMSTER: MAKING A MINIVAN FUN

The name sums it up. The design team at Skoda combined "room" with "roadster," and the result is the Roomster, a concept five-passenger family vehicle brimming with enough clever innovations to appeal to active young adults. The windshield and front door windows seem to be from an airplane cockpit, and a large amount of glass is used throughout the vehicle, including two lengthwise sunroofs and a rear hatch made completely of glass that extends down to the bumper. This gives a sense of space and openness, especially for rear-seat passengers, and there indeed is a lot of room in the Roomster. The rear seat slides back to the tailgate - the seat travel is 30 inches - giving more legroom than a limousine and the cargo space of a small van. The front passenger seat turns 180 degrees, so rather than just keep an eye on the kids, you can face them. There's only one rear door, on the passenger side, which slides back on a large hinge. It's wide and reaches high into the roof, providing easy access. When VW bought Skoda Auto few years ago, no one could have foreseen this 100-year-old Czech brand becoming a style and innovation leader.

ECONOMIC POLICY

► 2004 budget with 115-billion deficit

The 2004 state budget sees a deficit of 115 billion Czech crowns on revenues of 754 billion. The budget is based on several reform steps approved by parliament in the course of last year, including expenditure cuts, social reforms and tax hikes.

► Tax reform

In order to put the deficit below 3% of GDP by the time for euro adoption, the Czech government is set to reform public finances. The package of 11 measures passed into law, but not without controversy, includes increase in excise taxes on alcohol, cigarettes and automotive fuel, effective January 2004. VAT jumps from 5% to 22% for services including telecommunication services. The Cabinet plans to save some CZK 200 billion and to increase revenue by CZK 70 billion through its reform proposals.

► Government offers more money to bail out indebted hospitals

Prime Minister Spidla unveiled a bailout plan that would distribute CZK 2.7 billion to self-governing regional authorities that operate hospitals.

► Coalition leaders agree on pension reform principles

Coalition leaders agreed on pension reform principles based on the Swedish

model. The new system should guarantee a certain minimum pension to everyone, on top of which there would be a flexible amount depending on the person's previous earnings, and additional, voluntary pension insurance policies. The reform should be ready for implementation by mid-2005. The new system is to be gradually introduced over a period of 20 years.

► Government to issue more state bonds to finance budget deficit

The government is planning to issue state bonds worth almost CZK 140 billion crowns, or more than 4.5 billion USD. The bonds will mainly be used to finance the expected state budget deficit. The total amount of Czech state bonds will exceed CZK 600 billion (\$20 billion).

► Just one institution to oversee financial market as of 2010

The finance ministry has revealed a plan to create a single institution to oversee the Czech financial markets instead of the existing four. Supervision of credit unions and banks should merge, and supervision of insurance companies and pension funds should follow in 2006. The two institutions should then be transformed into just one before the adoption of the euro in 2009 or 2010. The process of merging the various institutions is very complicated, and the Committee for

Coordination of Financial Market Supervision has therefore preferred to divide it into several stages.

► SEC launches new system to detect dubious deals

The Czech Securities Commission introduced a new system to detect suspicious transactions. The system automatically highlights unusual deals with securities, which could help uncover illegal practices, including money laundering. The implementation of the system cost over \$3 million.

► The transformation of the Czech banking sector has been completed, according to the Czech National Bank board. The collapse of Union Bank and Plzenska Bank in 2003 was probably the last case in which post-communist liquidity problems led to bank failures. According to some estimates, the state spent about CZK 300 billion (\$11.5 billion) to save ailing banks.

► The Czech National Bank's total assets amounted to CZK 783 billion in December 2003. That total was CZK 22 billion more than the previous balance calculation. The increase was largely attributable to growth in receivables from abroad.

INVESTMENT PROJECTS UPDATE

□**Cesky Telecom Goes On Sale**

The Czech government agreed to restart the privatization of Cesky Telecom, the only former fixed-line monopoly in central Europe without a strategic partner. The privatization is set to be one of the biggest in the region during the next year, with the government's 51% stake currently worth about €1.5bn (\$1.9bn). The government aims to sell its stake to a strategic investor, or a minority stake through the stock market, or use a combination of both methods. An adviser should be appointed by the end of May. The sale should begin soon after, with completion expected early in 2005.

Minority stake holders, KPN and Swisscom, sold their 27% stake last month for €680m, removing the tag-along obstacle. CeskyTelecom's acquisition of full ownership in Eurotel, its mobile arm, should generate stronger profits for the parent company.

The sale is expected to attract several financial investors but few strategic investors, many of which are still financially overstretched from buying third generation mobile telephone licences. Financial investors need to find a strategic partner to qualify for the tender. Potential new bidders include PPF, a powerful local financial group, while mobile operators Orange and Vodafone are rumored to be interested in Eurotel, though the government does not want to sell it separately.

□**Czech Republic - European leader in automotive investments**

The findings of the "European Investment Monitor 2003" study conducted by Ernst & Young show that the Czech Republic is the most successful in gaining projects in the automotive industry. Out of the European total, the Czech Republic attracted a share of 18%, outperforming the traditional leaders Great Britain (with 13%) and France (with 12%). The recent new investors are large multinational Dana Corporation, American Eaton, WITTE NejdeK, Brose automobile supplier, CIE Automotive, Continental AG, and Valeo Autoklimatizace.

□**ExxonMobil moves to Prague**

One of the biggest world corporations, American oil company Exxon Mobil, plans to establish a specialized support center for its European operations in Prague. The new center is going to be opened on April 1st, 2004 and will employ specialists from the areas of IT technologies and finance.

□**2003 saw a rise in investment into R&D and business support services**

CzechInvest mediated a total of 60 investment projects for the Czech Republic in 2003 worth 1.2 billion dollars (nearly 38 billion crowns), which is a moderate increase in investment volume over last year. These investment projects will create at least 10,000 jobs. Furthermore, there has been a radical shift in quality of the incoming investments as traditional manufacturing projects have set off a wave of more demanding projects in R&D and business support services. After DHL and Accenture, ExxonMobile is set to base a similar operation to Prague.

□**Icon Communication Centres** of Britain, opened its first call center in Prague in May 2003, serving customers of insurance, automotive, utilities and market research companies in Britain, the U.S. and Australia. Its Prague center, which offers clients a 25% savings on similar centers in Britain, can offer as many as 16 languages, and the firm has plans for four more call centers in as many years. "You've got to have people who can hold a sensible dialogue with your client's customers. That's not happening in East Asia or Africa," said Mark Rehorn, Icon's commercial director.

□**Accenture Ltd.** last month announced a fivefold increase in employees in Prague over the next five years, to 1,500, at the consulting firm's financial and accounting outsourcing center. One client, French specialty chemicals producer Rhodia, has migrated finance operations from Britain, France, Italy, Switzerland, Slovakia, Germany and Spain to Accenture's Prague center since operations began two years ago, and hopes for 35% savings.

□**Brno attracts more investors**

Brno, the country's second city, will offer an expanded industrial zone, Cernovicka terasa to new projects in both, manufacturing and services. Brno is undoubtedly the most attractive area for investment projects. It has a quality infrastructure and transport connections, prominent universities, and a wide offering of qualified labor. Many foreign investors have already settled in Brno – for instance, Honeywell, Tyco, IBM, DHL/Danzas, IMI Norgren, Xaloy AG, IFE, Knorr Bremse, Andrew.

□**DHL International Ltd.**, the logistics group, announced it would invest \$595 million over the next four years and eventually employ 1,000 people at a data center in Prague to track shipments, customer queries and billing activities throughout Europe. DHL is shifting activities from Britain to the Czech

capital, where tech labor is 60% to 70% cheaper. The facility eventually will be a global center to complement similar ones in Malaysia and the U.S. "This investment propels the Czechs to the forefront of Europe to host service centers of the kind that we're setting up in Prague," said James Harvey, DHL's director of change programs.

□**CTP Project Invest s.r.o.** is a Dutch development company that has been operating in the Czech Republic since 1998. It offers construction and rent of industrial real estate properties to foreign investors. Among its major projects are the industrial parks in Divisov, Humpolec and Brno Modrice. For example, in Humpolec, the company manages industrial zone, Central Trade Park D1, of total area 110,000 m² with 298 employees. The industrial zone in Brno Modrice has a total area of 300,000 m² and has provided jobs for a total of 2,062 people.

□**Czech Brownfield Regeneration Strategy Project**

British company Parsons Brinckerhoff should prepare a thorough study intended to assess the current situation and to propose opportunities to utilize further brownfields within both the Ustecky and Moravskoslezsky regions.

The British consulting company Parsons Brinckerhoff together with other Czech and European experts have two major goals in the Czech Brownfield Regeneration Strategy Project. The first is to develop an overall strategy for regeneration of brownfield sites in the two selected regions by the end of the year. The work also includes preparation of five model sites for which all the necessary documentation will be prepared, as well as a system of funding and further use.

□**Black and Decker announces supplier Six Sigma program in the Czech Republic**

Black & Decker announced expansion of highly successful Six Sigma quality and cost improvement program into the Czech Republic to focus on increasing the effectiveness and competitiveness of its local supply base. This program is the first of its kind in the Czech Republic. Headquartered in Towson, Maryland, Black & Decker is a leading global manufacturer and marketer of power tools and accessories, hardware and home improvement products, and technology-based fastening systems.

□**Swiss Micron Announced Investment in North Bohemia**

Swiss corporation Mikron Holding AG have decided to start production of precision plastic components in Chomutov. "We chose Chomutov for its well prepared industrial zone as well as for its excellent location with good access to both our current and new customers in Germany and Central & Eastern Europe", said company representative.

□ **Finland's Kone in the Czech Republic**

The fourth largest elevator company in the world, Finland's Kone Corp, decided to build an elevator component factory in the Czech Republic. The company plans to start production at the end of 2004. The production capacity of the Kone factory in Usti nad Labem will cover the Central European market's demand. KONE has 800 service centers in more than 40

countries worldwide. The company's annual net sales total EUR 5,500 million and it employs more than 23,000 people.

□ **Czech engineering companies show competitiveness**

Czech engineering company Swell, s.r.o. is building a state of the art technological centre intended for research of the properties of material for the automobile and aviation industry. The total investment volume is about 1.5 million Euros. Simulation and design of tools and parts and their production in the aviation and automobile industry is one of the pilot areas in pre-series research and development in the Czech Republic. It is just in these branches that the advantages of the Czech Republic are concentrated: high qualification in the branch, credit of

the Czech Republic as a quality manufacturer, available and skilled labor.

□ **Czech Republic's new business agency**

January 2, 2004, marks the beginning of the Ministry of Industry & Trade's Business and Investment Development Agency – CzechInvest. The new, unified entity whose mission is to support businessmen in the Czech Republic was created by merging the Agency for Business Development (ARP) and the Agency for Development of Industry in the Czech Republic (CzechIndustry) with the Czech Agency for Foreign Investment (CzechInvest). Martin Jahn, who has been serving as CzechInvest's CEO up to now, has been appointed CEO of the new agency.

COMPANIES AND BUSINESS

□ **Privatization committee recommends J&T in coal-mine sell-off**

A Czech steering committee has recommended that the government agrees to sell a majority stake in the Severoceske Doly brown coal mine to Czech-Slovak investment bank J&T. According to unofficial reports, the business plans of all the bidders were comparable but J&T had submitted the highest bid of around CZK 6.8 billion (\$261 million) for a 55.4 percent stake in Severoceske Doly.

□ **UMTS licences: pay now, play later**

Czech mobile phone users will have to wait for the introduction of the third-generation UMTS network a year longer than originally agreed. The government has made a deal with two Czech mobile phone operators Eurotel and T-Mobile under which they will speed up payments for their UMTS licences in return for a delay in launch of the service.

The IT Ministry said the operators would together pay the government almost 5 billion Czech crowns (or around 170 million USD) in two installments next year, instead of spreading out the payments until 2011 as previously agreed. The telecommunications market regulator in return shifted the deadline for starting the UMTS network services by one year to January 2006, from 2005

□ **New tender opened for three FWA licences in Prague**

The Czech Telecommunications Office has called a public tender for three licences for Fixed Wireless Access connections in Prague. The Fixed Wireless Access is used for broadband services, such as high-speed

data transmission and Internet access. The operators will be able to use the networks in the 28 GHz band also for voice services. The main criteria in the tender include for example quality of service, date of launch, prices of Internet connection, and extent of coverage. Successful bidders will \$100,000 for each license.

□ **Czech CEZ bids for Slovak power utility**

The dominant Czech power producer CEZ has submitted a bid for the Slovak state-owned utility Slovenske Elektrarne, confirming its strong interest in foreign expansion. The company prepared a detailed bid with a business plan for all of Slovenske Elektrarne assets, including two controversial nuclear power plants. Besides CEZ, there are seven other bidders, but most of them are interested in selected assets only.

□ **Unipetrol privatization postponed**

The privatization of the Czech chemical group Unipetrol has been postponed until this January as initial investor bids failed to meet expectations. The government's privatization committee received 10 letters of intent, with only Polish oil firm PKN and Hungarian oil and gas group MOL publicly announced. A new deadline for preliminary detailed bids was postponed until January to allow other investors time to join the tender. The government is selling its 63% stake in Unipetrol and over \$150 mil. worth of receivables. Experts expect the state to raise around \$400 mil. for the stake and around \$130 mil. for the debt. Polish oil company PKN Orlen plans

to team up with U.S. ConocoPhillips for participation in the privatization.

□ **Czech Telecom warns of 2003 loss, cuts jobs**

The dominant Czech telecommunications operator Czech Telecom said it could slip into a loss this year unless regulators allow it to hike fees charged to its fixed-line clients. The company also announced plans to cut around 4,000 jobs by the end of 2005, mostly at its fixed-line business, to end up with a total staff of 9,500 including at mobile unit Eurotel.

□ **TDC quits Radiokomunikace, keeps fixed-line unit**

The Danish telecoms company TDC said it was pulling out of Czech operator Ceske Radiokomunikace, leaving Deutsche Bank the sole majority owner. TDC earlier this year raised its stake in loss-making fixed-line operator Contactel, formerly a subsidiary of Radiokomunikace, to 100 percent from 60 percent and said it would keep it.

□ **Czech Railways to lease Prague's main station to Grandi Stazioni of Italy**

The Czech national rail operator, Czech Railways, will lease three Czech railway stations, including Prague's main station, to Italy's Grandi Stazioni. Grandi should get a long-term lease contract and must renovate the stations. The Italian company has pledged to invest in the renovation of Main Station in Prague, and the spa towns Karlovy Vary and Marianske Lazne.

□ **Komerční banka sold 52.6% of Muzo, the largest Czech processor of payment-**

card transactions, to U.S. company Global Payments for \$34.7 mil.

□**The government approved the sale of real estate company IPB Real** to Luxembourg-based Orco Property Group. Orco offered the highest bid, at CZK 417 million for 100 percent of the company.

□**Virtual shopping**

The latest survey revealed that only 34% of Czechs shopped on the Internet in 2002, which is about the same as a year before. High prices for Internet access, the unwillingness to use credit cards online and insufficient legislation are the main obstacles to the development of electronic shopping in the country.

□**Cesky Mobil client base rises to 1.5m clients**

At the end of 2003 there were about 9.6 million mobile phone users in the Czech Republic whose population is some 10

million. The total number of mobile phones in the country was roughly one million higher against the previous year.

□**Sale of new cars up at 149,500 units in 2003**

The sale of new passenger cars in the Czech Republic increased by 1.2 pct in 2003 against the previous year to some 149,535 units, the second highest figure in the last six years, the Association of Car Importers SDA announced at a press conference. Skoda Auto had the largest share, with over 71,000 cars sold. Renault was the most successful importer. The most important car importer last year was Renault with 9,143 units, followed by Peugeot and Volkswagen. Then came Ford with 6,580 sold cars. In the January-November period of last year, a record of over 140,000 used vehicles were imported to the Czech Republic. As a result, the market for used vehicles was roughly as large as the market for new vehicles.

□**Czech Airlines adds new destinations**

In 2003, Czech Airlines (CSA), a Sky Team member, recorded a surge in passengers, prompting the airline's management to continue its expansionist strategy in 2004. New planes, an Airbus A310 and three Boeing 737s, will enable the airline to fly to five new destinations: among those Edinburgh, Yerevan (Armenia), Sliac (Slovak spa), Ekaterinburg (Russia), Baku (Azerbaijan) and Dortmund (Germany). CSA is becoming a pan-regional airline serving destinations in the EU and Eastern Europe.

□**Bill Gates to visit Prague**

Bill Gates is scheduled to visit the Czech Republic in late January 2004. During his visit, he will meet with Czech business leaders and government officials and speak at a conference in Prague.

CZECH BUSINESS INCENTIVES SCHEME UPDATE

The Parliament of the CR discussed the amendment to the Investment Incentives Act, which has been drafted with the forthcoming entry of the Czech Republic in the European Union. The approval process should culminate no later than during January 2004, while the act itself will come into effect once the country enters the EU, i.e. May 2004. The most important changes to the Investment Incentives Act are:

- the limit for the minimum investment that must be made to receive investment incentives will be reduced from EUR 11 million (CZK 350 million) to EUR 6.3 million (CZK 200 million) and to EUR 4.7 million (CZK 150 million) (in districts where the rate of unemployment is 25% greater than the national average); in districts where the rate of unemployment is 50% greater than the national average the limit has already been set under present legislation at EUR 3.2 million (CZK 100 million)
- the term for utilizing investment incentives for an expansion of already-existing companies will be extended from 5 to 10 years
- the power to define the level of state aid will be transferred from the Office for the Protection of Economic Competition (Anti-Monopoly Office) to the Ministry of Industry and Trade (the Ministry will therefore work together with the Anti-Monopoly Office)
- inspection powers in the field of state aid will be transferred from the Anti-Monopoly Office to the European Commission
- terms and conditions related to state aid, currently laid out by the State Aid Act, will now be directly incorporated into the Investment Incentives Act (e.g. precise definition of the terms and conditions for maintaining investments that have received an investment incentive, the rules for accumulation of aid, sectors in which state aid may not be granted, etc.)

Thanks to this amendment, investment incentives can be granted after the Czech Republic joins the European Union. The approved amendment to the Act responds to the fact that the decision-making powers to inspect the provision of state aid will pass directly from the Anti-Monopoly Office to the European Commission once the country joins the EU. The amendment therefore precisely defines the terms and conditions to grant investment incentives in accordance with European rules for state aid, so that the European Commission need not approve each project individually. The European Commission should also approve the Act prior to Czech accession to the European Union. The Investment Incentives Act will thereby become one of the national state aid programs that will comply with the rules of the European Communities and the practices implemented in the EU Member States.

SOFTWARE DEVELOPING COMPANIES IN THE CZECH REPUBLIC

Alfa'95 BM, spol. s r.o.
Pastrnkova 43
615 00 Brno

Tel: +420 545.242.236
Fax: +420 545. 242.436

E-mail:
alfa95.brno2@alfa95.cz
www.alfa95.cz

Contact person:
Mr. Zdenek Rybnicek, Mr.
Miroslav Polasek

Area of Business:
Sales of IT technologies,
internet service connection,
development of custom made
software.

AXA spol. s r.o.
Novostrasnicka 27
100 00 Praha 10
Tel: +420 274.818.897
Fax: +420 274.818.898
E-mail: info@axa-sw.cz
www.axa-sw.cz
Contact person:
Mr. Evzen Bilek
Mr. Petr Slavik
Area of Business:
Software, IT systems for
business management and
controlling (ERP); bank
information systems (DBS);
bank exchange systems (AXA
REP); managerial, registry,
cashpooling, data warehouse,
production and accounting
systems; cash register system
(@K2); integrated system of
cash terminals and payment
verification (AXA ISW)

Beep, s.r.o.
Na Okrouhliku 13
182 00 Praha 8
Tel: +420 284.689.730
Fax: +420 284.689.729
E-mail: beep@beep.cz
www.beep.cz
Contact person:
Mr. Milan Ehrenberger
Area of Business:
Development and
implementation of business
information systems. Custom
made ERP systems for small
and middle-sized companies.

Brain Systems, s.r.o.
Rybkova 1
602 00 Brno
Tel: +420 541.148.704
Fax: +420 541.148.852
E-mail: info@brain-systems.com
www.brain-systems.com
Contact person:
Mr. Tomas Cada (Business
Director), E-mail:
tomas.cada@brain-systems.com
Area of Business:
Custom made software for e-
business development,
e-commerce systems, and
other internet technology
based solutions.

BSC PRAHA, spol. s r.o.
Satrova 807/808
142 00 Praha 4
Tel: +420 272.104.111
Fax: +420 241.714.125
E-mail: marketing@bsc.cz
www.bsc.cz
Contact person:
Mr. Jiri Bouma (Marketing
Manager), E-mail:
jiri.bouma@bsc.cz
Area of Business:
Design and accomplishment of
banking and in-house
information systems.
Development of own
independent products of direct
banking GEMINI, system for
signature verification SVS
NT, systems of obligatory
declarations for the Czech
National Bank, etc.

CIGLER SOFTWARE, a.s.
Rostislavovo namesti 12
612 00 Brno
Tel: +420 549.522.511
Fax: +420 549.522.512
E-mail: info@money.cz
www.ciglersw.cz
Contact person:
Mr. Tomas Bobek
Area of Business:
Development of the economic
system MONEY, sales and
service of cash register
systems.

COLUMBUS IT Partner
Planickova 445/11
162 00 Praha 6
Tel: +420 235.354.202
Fax: +420 235.354.212
E-mail: sales@columbusit.cz
www.columbusit.cz
Contact person:
Mr. Marcel Vorlicek
E-mail: mvor@columbusit.cz
Area of business:
Software development; system
support for IT users.

E LINKX a.s.
Novoveska 95
709 00 Ostrava - Marianske
Hory
Tel: +420 597.444.999
Fax: +420 597.444.305
E-mail: info@elinkx.cz
www.elinkx.cz
Contact person:
Mr. Lumir Kunath
Tel: +420 597.444.237
E-mail: ikunath@elinkx.cz

Area of Business:
Development and
implementation of e-business
software; ASP; web hosting,
etc.

IDS Scheer CR, s.r.o.
Videnska 55
617 00 Brno
Tel: +420 543.524.666
Fax: +420 543.524.601
E-mail: ids@ids-scheer.cz
www.ids-scheer.cz
Area of business:
Development and
implementation of software.

INFO NOVA, spol. s r.o.
Novodvorska 1010/14
142 01 Praha 4
Tel: +420 261.341.349
Fax: +420 261.341.357
E-mail: info@infonova.cz
www.infonova.cz
Contact person:
Mr. Milan Dolejs (Business
Manager), E-mail:
dolejs@infonova.cz
Area of Business:
IT systems for commercial
and industrial enterprises.

ITS a.s.
Vinohradská 184
130 52 Praha 3
Tel: +420 267.310.605
Fax: +420 267.132.394
E-mail: its@its.cz
www.its.cz
Contact person:
Mr. Josef Svoboda
E-mail: svoboda@its.cz
Area of Business:
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development, and service
partner of IBM. Supplies of
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OS/400, Lotus; eBDX - B2B
system for the Internet
distribution of commercial
documents; application SW
SPECTRUM/400 for the
commercial/economic agenda
and production management

KCT Data, s.r.o.
Vojtova 27
143 00 Praha 4
Tel: +420 241.776.895
Fax: +420 241.776.896
E-mail: kctdata@kctdata.cz
www.kctdata.cz
Contact person:
Ms. Margita Duriskova
(Marketing Director)

Area of Business:
Application development for
SAP R/3 system.

LCS International a.s.
Zeleny Pruh 1560/99
147 00 Praha 4
Tel: +420 244.104.111
Fax: +420 244.104.444
E-mail:
dusan.drechsler@lcs.cz
www.lcs.cz
Contact person:
Mr. Dusan Drechsler
E-mail:
dusan.drechsler@lcs.cz
Area of Business:
Development of
economic/commercial IT
systems for business
management.

LCS Softprofes, a.s.
Bratri Stefanu 60
500 03 Hradec Kralove
Tel: +420 495.809.211
Fax: +420 495.809.212
E-mail: info@lcs.cz
www.lcs.cz
Contact person:
Mr. Pavel Stepan
Area of Business:
Development of
economic/commercial IT
systems for business
management (LCS SIS 21,
LCS Helios IQ, LCS Noris).

Oracle Czech s.r.o.
Skretova 12
120 00 Praha 2
Tel: +420 221.438.150
Fax: +420 221.438.151
E-mail: info_cz@oracle.com
www.oracle.cz
Contact person:
Mr. Stig Joergensen
Area of business:
Database systems and
components, complex
solutions for Internet and
Intranet.

Qgir s.r.o.
Fugnerova 11
702 00 Ostrava 1
Tel: +420 596.134.566
Fax: +420 596.134.567
E-mail: prodej@Qgir.cz
www.Qgir.cz, www.K2.cz
Contact person:
Mr. Pavel Motan, E-mail:
PMotan@Qgir.cz
Area of Business:
Production, sales and
implementation of the K2

system. Design and implementation of computer networks (Novell Certified Network Engineer, Microsoft Certified Professional).

REKONix, spol. s r.o.
Karafiatova 60
106 00 Praha 10
Tel: +420 272.654.037
Fax: +420 272.650.162
E-mail: sales@rekonix.cz
www.rekonix.cz
Contact person:
Ms. Marie Suchanova
E-mail: sales@rekonix.cz
Area of Business:
System integrator /
softwarehouse, information
systems for company

management. Turnkey preparation of application software, LAN/WAN solutions, custom-made applications for Internet/Intranet, databases, ASP services.

SMARTTECH, s.r.o.
Na Strzi 63
140 62 Praha 4
Tel: +420 261.142.190
Fax: +420 241.409.494
E-mail:
smartech@smartech.cz
www.smartech.cz
Contact person:
Mr. Pavel Pecka
Development and
implementation of IT systems.

Soft Cell Ceska republika
Videnska 125
619 00 Brno
Tel: +420 547.423.511
Fax: +420 547.423.510
E-mail: info.cz@softcell.cz
www.softcell.cz
Contact person:
Mr. Pavel Barborik
Area of Business:
Provides IT solutions based on
own program for finance and
logistic (SCBA). Special
software development.

WEBCOM a.s.
Masna 4
702 00 Ostrava 1

Tel: +420 596.122.381,
596.115.782
Fax: +420 596.115.779
E-mail: info@webcom.cz
www.webcom.cz
Contact person:
Mr. Pavel Zatopek, E-mail:
zatopek@webcom.cz
Area of Business:
E-commerce services,
development of IT systems for
Internet/Intranet technology;
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CZECH AUTOMOTIVE INDUSTRY (SUCCESS STORY ON THE WAY TO THE EUROPEAN UNION)

Czech Republic citizens decided in a referendum held in June 2003 that their country will join the European Union on May 1, 2004. The country is currently finalizing the preparation for EU membership and its economy, including all industrial sectors, is intensively learning to operate under the new conditions. The Czech automotive industry has in the Czech economy both, strong position and dynamic developing potential, too. It is therefore prepared to stand the competition test in the EU.

Czech automotive industry has its rich history

This year marked the 105th anniversary since the completion of the first passenger car with combustion engine. The company Nesseldorfer Wagenbaufabrik (now Tatra a.s.) produced this car called Präsident in 1898 and the car did its first long distance journey to Vienna the same year. The Czech Republic can therefore boast that it is one of the few countries around the world where car production has been developing since its very beginning.

Transformation and privatization

Car production in the Czech Republic has of course reflected both positive and negative developments of the last century. Known as a considerable car producer between two world wars, the Czech automotive industry faced stagnation during the country's socialist years. Its current situation is influenced above all by political changes at the turn of the 1990s.

The Czech automotive industry could serve as an example of successfully completed process of restructuring, transformation and privatization within the frame of transforming Czech economy since 1989.

The success story of the Czech privatization is entry of the German VW concern into Škoda Auto car factory in 1992. It is underlined not only because of quality production of passenger cars, but also because it has led to the development of the Czech supplier industry that started to work dominantly for Škoda Auto.

Privatization in this sector is practically completed, nowadays. About 150 car industry companies therefore have clear and specific Czech or foreign owners. The share of foreign companies on the share capital reached 67.5 per cent by the end of 2002. Development of supplier industry means, now, that components, systems and accessories produced in the Czech Republic are being supplied not only to Škoda Auto or to VW, but to all important European and global producers of road vehicles, including American.

Development continues

It is above all the stable high performance of Skoda Auto and the strong development of the supplier industry that resulted in further growth of the importance of the sector in the Czech economy in 2002. In 2002, the production of the Czech automotive industry represented 16.7 per cent of the whole Czech industrial production.

The share of the automotive industry on Czech exports totaled at 19.1 per cent in 2002, while in 2001 it was 17.5 per cent. Exports to the EU countries represent 76 per cent of total exports of the sector. The Czech automotive industry facilitates almost 100,000 jobs.

Production and sales

147,754 new passenger cars were sold in the Czech Republic in 2002. The number one on the Czech passenger cars market is Skoda Auto. Share of the Škoda brand on the market is steadily about 50 per cent. By January 31, 2002, 3,648,905 personal cars were registered in the Czech Republic. This means that there are 2.8 inhabitants per one personal car in the country.

The following table shows the development of production of road vehicles in the Czech Republic:

Years	Passenger and light commercial vehicles	Trucks	Buses	Motorcycles	Trailers	In total
1997	358 625	8 764	1 092	6 193	1 337	376 011
1998	404 293	5 434	1 240	3 811	1 989	416 767
1999	371 547	3 007	1 269	4 389	1 544	381 756
2000	450 995	3 073	1 424	3 865	1 309	460 666
2001	460 997	2 718	1 566	5 308	1 635	472 224
2002	442 507	2 769	1 812	7 880	1 768	456 736

It can be seen from the table:

- Production of buses is a successful segment of the Czech automotive industry with long-term growth. The main producer is Karosa Vysoke Myto (member of the group Iris Bus, together with Iveco and Renault), other two producers are companies SOR Libchavy and KH MotorCentrum.

- The production of trucks, after sharp decrease in the mid and late 1990s, is recovering its grows. The following companies produce trucks: Daewoo Avia (midsize trucks), Tatra (heavy off-road trucks) and Praga (communal vehicles).

- Production of motorcycles has been growing relatively vigorously since 2001 thanks to the successful export activities of the company Jawa Tynec nad Sazavou.

- Production of trailers is growing year-on-year as well (main producers – Panav, Kögel, Metaco BO.BR., Schwarzmüller).

Future

Since 1992, the Czech automotive industry attracted the greatest part of FDI, out of all industrial sectors. Recently, Toyota, Peugeot and Citroen Motor Corporation have begun construction of their new joint factory to manufacture a new class of passenger cars. The construction of the new TPCA car factory near town Kolin is a big promise for the Czech automotive industry. Its planned annual capacity should be 300,000 small cars carrying the brands Toyota Peugeot and Citroen. The factory is currently the biggest investment project in the automotive industry, with a total investment of euro 1.5 billion. Serial production shall begin in April 2005. Production capacities of other suppliers and related services are also being established in connection with this investment. Other important producers of passenger cars have been and are further considering building their assembly plants in the Czech Republic.

Automotive Industry Association

The Automotive Industry Association represents the sector of automotive industry in the Czech Republic. Association has 140 current members, a vast majority of them (110) are suppliers. Fourteen companies in total are dealing with the final production of road vehicles, while other subjects (16) are active in areas like research, development, services and education that are directly connected with the automotive industry.

The Automotive Industry Association is one of the co-organizers of the most important and the only internationally accepted car exhibitions in the Czech Republic – CR-AUTOSALON (passenger cars) and AUTOTEC (commercial vehicles) in Brno and MOTOCYKL (motorcycles) in Prague.

Fernet liquor in the U.S. market

Czech expatriates in the North East will be able to sip the popular Fernet liquor of Stock Plzen-Bozkov at local bars and restaurants starting in early 2004. The bitterly sweet liquor will be introduced to the U.S. market for the first time. Stock Plzen-Bozkov is expanding to the United States after successful rollouts in European markets.

The first shipment of the bitter-tasting Fernet is scheduled to arrive in January and sell at shelf price of about \$18 a 1 liter bottle. The traditional liquor enjoys huge popularity in the Czech market. In the U.S. it will be distributed in ethnic restaurants and specialty shops.

U.S. contact:

Distillerie Stock USA, Ltd.
58-58 Laurel Hill Boulevard
Woodside, NY 11377
Toll Free: 800-323-1884
Phone: 718-651-9800
Fax: 718-651-7806
E-mail: Jill@StockUSALtd.com

TRADESHOWS AND EXHIBITIONS / SPRING 2004

Prague Exhibition Grounds / www.incheba.cz

March 3 – 5

△POLYGRAF / International Fair of Polygraphy, Paper, Packaging, and Packaging Technology
△REKLAMA / International Exhibition of Advertising Services, Marketing, and Media

March 11 – 14

△MOTOCYKL / International Motorcycles and Accessories Exhibition

March 17 – 19

△INTERGAS / International Gas Exhibition
△PRAGOREGULA-ELEXPO / International Trade Fair for Measuring, Control Technology, Electrotechnics and Electronic Automated Equipment
△PRAGOTHERM / International Trade Fair for Power Engineering, Heating, Sanitary Technology, Energy Saving, and Technology Equipment for Buildings.
△FRIGOTHERM / International Trade Fair of Cooling Technology, Conditioning and Air-conditioning

March 26 – 27

△LA BELLA DONNA / International Trade Fair of Cosmetics and Healthy Lifestyle

Brno Exhibition Center / www.bvv.cz

March 2 – 3

△ProBiz / Suppliers Forum of Fast Moving Consumer Goods

March 17 – 21

△MOBITEX / International Fair of Furniture, Home Textiles and Interior Accessories
△DOMO / International Fair of Household Articles
△PRODITE / International Fair of Children's Products
△FISHING / International Exhibition of Fishing Tackle

March 23 – 25

△SCHOLA NOVA / School, Training and Equipment International Specialized Fair

March 28 – April 1

△TECHAGRO / International Fair of Agricultural Technology
△Animal VETEX / International Veterinary and Livestock Fair
△SILVA REGINA / International Forestry and Hunting Fair

MR. MICHAL ROZKYDALEK – NEW HEAD OF THE CZECH TRADE OFFICE IN MIAMI

Czech Trade Office in Miami has a new director. Mr. Michal Rozkydalek replaced Mr. Roman Matyas, who returned to Prague in December. Mr. Rozkydalek has major experience in promoting the international trade. He came to U.S.A. from Poland, where he was engaged in trade promoting as the Director of CzechTrade's Warsaw office.

Contact info: 5805 Blue Lagoon Drive, Miami, FL 33126, Phone: 305.261.6313, E-mail: miami@czechtrade.cz

CZECH COMMERCIAL OFFICES IN THE UNITED STATES

Czech Embassy in Washington, D.C.: Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nebraska, North Carolina, North Dakota, Ohio, Oklahoma, South

Carolina, South Dakota, Texas, Tennessee, Virginia, West Virginia, Wisconsin.

Contact: Ms. Marketa Janikova, Phone: 202.274.9104
Fax: 202.244.2147, eco_washington@embassy.mzv.cz

Consulate General in Los Angeles: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming.
Contact: Mr. Michal Korycanek, Phone: 310.473.0889 x.229
Fax: 310.473.9813, losangeles@embassy.mzv.cz

Consulate General in New York: Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont.
Contact: Mr. Josef Dvoracek, Phone: 212.717.5643
Fax: 212.717.5064, consulate.newyork@embassy.mzv.cz

CzechTrade - Chicago Office (information on Czech products)
Contact: Ms. Ivana Ingram, Phone: 312.644.1790, Fax: 312.527.5544, chicago@czechtrade.cz

CzechTrade - Miami Office (information on Czech products)

Contact: Mr. Michal Rozkydalek, Phone: 305.261.6313,
Fax: 305.261.6314, miami@czechtrade.cz

Czech Center New York
Contact: Mr. Jan Zahour, Phone: 212.288.0830 x.106,
Fax: 212.288.0971, zahour@czechcenter.com

CzechInvest – Chicago Office
(investment opportunities in the CR)
Contact: Ms. Hana Lasslerova, Phone: 312.245.0180,
Fax: 312.245.0183, chicago@czechinvest.org

CzechInvest – San Jose Office
(investment opportunities in the CR)
Contact: Ms. Karolina Bockova, Phone: 408.376.4555,
Fax: 408.376.4557, california@czechinvest.org

BUSINESS AND TRADE WEBSITES

General Information	www.czech.cz	CzechInvest	www.czechinvest.org
Czech Supplier	www.supplier.cz	Tradeshows	www.veletrhyavystavy.cz
CzechTrade	www.czechtrade.cz	Czech Embassy	www.mzv.cz/washington

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