

CZECH FOCUS

The magazine of the Association for Foreign Investment and CzechInvest

The other jewel in the crown

The Czech electronics sector comes of age



The Czech Republic and South Korea:
a positively developing partnership

Plzeň: a region where
investors and beer succeed

Location strategy:
electronics manufacturing hotspots in the Czech Republic

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- Established R&D with Successful Applications
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Dear Readers,



The Czech Republic is often referred to as the Land of Industries. This is because of both the Czech Lands' historical industrialisation, having served as an industrial hub in Europe since the mid-19th century, as well as the country's large share of industrial production in GDP, which is currently the highest in Europe as a whole.

A big part of that comprises electrical engineering and electronics manufacturing. We have an extremely long tradition of both inventions and implementation and use of electrical-engineering and electronics products in our daily lives and exporting of such products around the world. We have dedicated this issue of Czech Focus to the current trends and investment opportunities in electronics and electrical engineering in the Czech Republic, as we believe that this is an industry of the future for the world and one of the current leading sectors in the Czech Republic. As we will see from the articles that follow, electrical engineering in our country dates back to the late 19th century – as early as in 1896, František Křižík was behind the opening of the first electrical public tram line in Prague and in 1903 the first electric railway connection in the Czech Republic (from Tábor to Bechyně in south Bohemia) was opened.

The electrical engineering and electronics industry in the Czech Republic is the second largest sector of the economy, with 17,000 companies employing more than 180,000 workers.

We also have an excellent, innovative and up-to-date system of technical education. Established in 1707, the Czech Technical University in Prague is the oldest non-military technical university in Europe. Last year, there were also more than 74,000 university students enrolled in areas related to electrical engineering and electronics. We have a very good overview of the research and development results of Czech technical universities, as our Cooperation of the Year competition, which we organise annually with the purpose of promoting the commercialisation of research and development and cooperation between public research institutes and companies, has had a large number of participating projects from the electronics sector. It also stands to mention that the sector has enjoyed and continues to enjoy the presence of a large number of foreign investors such as Bang & Olufsen, Foxconn and Panasonic, to name only a few examples. You can read more about investment in the Czech electrical engineering and electronics sector in the following pages.

Also noteworthy are the current major trends that are directly related to the electrical engineering and electronics sector:

- Industry 4.0 has gained significant momentum, particularly in the area of automated robotic systems for automotive production in the Czech Republic.
- smart cities, where electrical engineering and electronics will have a major role in the development and integration of daily life with modern technology and the use of energy resources (notably renewable) in transportation in our cities.

I hope you will enjoy reading this issue of Czech Focus and I would be excited to have the opportunity to speak with you about any business and investment opportunities.

I look forward to seeing you in the Czech Republic.

Kamil Blažek
Chairman of AFI

Masthead

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The Czech Republic - basic information

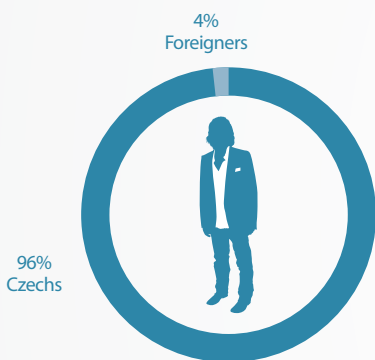
The Czech Republic in the world



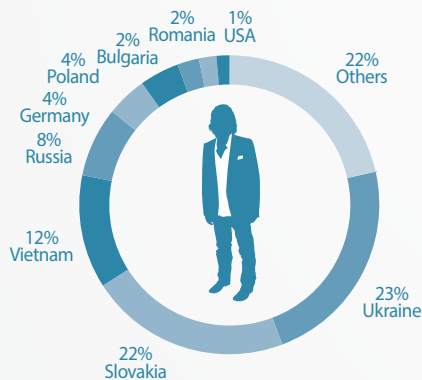
10.5 mil
Population

78.866 km²
Area

Population

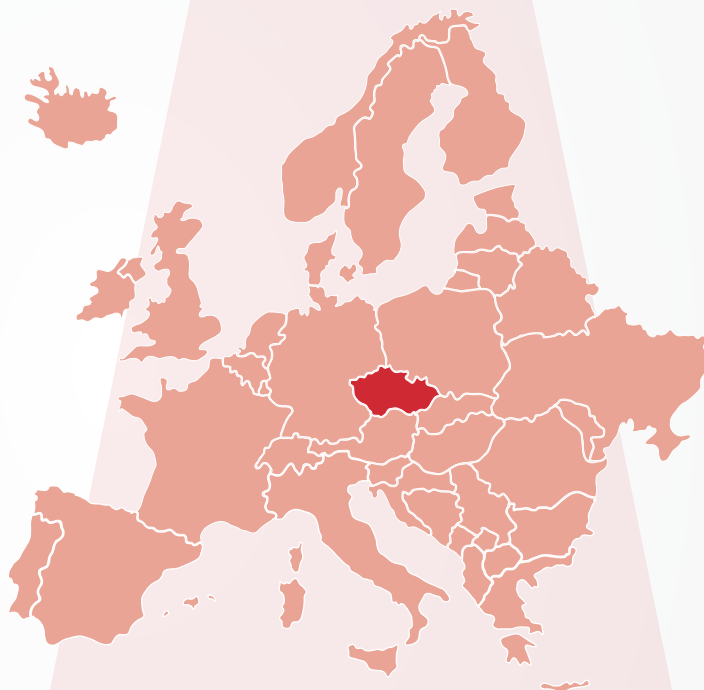


Note: Percentage of foreigners in total population
Source: Eurostat, 2012



Note: Percentage of foreigners, by citizenship
Source: Directorate of Alien Police Service, September 2015

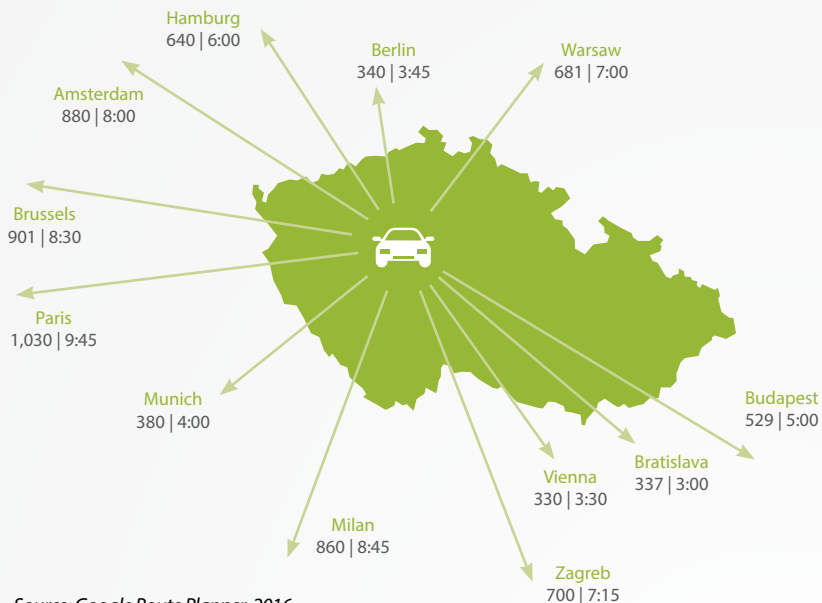
The Czech Republic in Europe



The Czech Republic in detail



Travel distances from Prague (km | driving time, h:m)



Source: Google Route Planner, 2016

Economy

4.3%

GDP growth, 2015

6.3%

Unemployment rate, February 2016

31st

The 31st most competitive country according to the Global Competitiveness Index, 2015 – 2016. The Czech Republic is also among the most competitive countries in the CEE region.

Source: Czech Statistical Office, 2016

Investment risk rating

Country	Standard and Poor's	Moody's	Fitch
Czech Republic	AA-	A1	A+
Slovakia	A	A2	A+
Poland	A-	A2	A-
Bulgaria	BBB	Baa2	BB+
Hungary	BB+	Ba1	BB+
Romania	BB+	Baa3	BBB-
Russia	BB+	Ba1	BBB-

Source: Czech National Bank, 2015

Industry

47.3%

Industry's share in the commercial economy

1st

The Czech Republic is the most industrialised country in the EU.

Source: Eurostat, 2015

Quality of life

10th

The 10th safest country in the world according to the Global Peace Index 2015.

27th

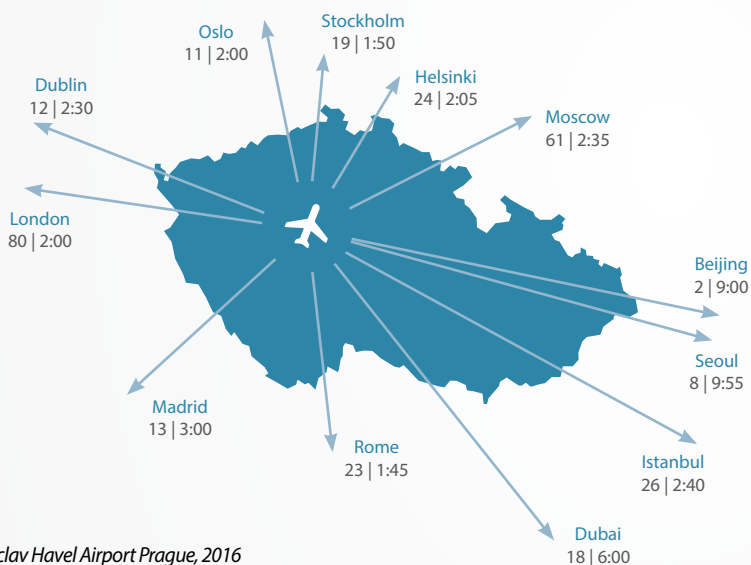
The 27th happiest country in the world according to World Happiness Report issued by the United Nations, 2016.

1st

The Czech Republic is ranked first among the newer EU member countries in the same report.

Sources: Global Peace Index, 2015; World Happiness Report, 2016

Travel distances from Prague (flights per week | flight time, h:m)



Source: Vaclav Havel Airport Prague, 2016

Recent history

Velvet Revolution

In November and December 1989 the people of Czechoslovakia held a series of non-violent demonstrations against the communist government, which resulted in the regime's collapse. The leading figure of the events, Václav Havel, was later named the first president of the free, post-communist Czechoslovakia.

Velvet Divorce

The federated Czechoslovakia was divided into the Czech Republic and Slovakia on 1 January 1993 through a bilateral political decision. Due to the peaceful course of the breakup, the event was called the Velvet Divorce.

Accession to NATO

The Czech Republic became a member of NATO in 1999.

Accession to the EU

The Czech Republic joined the European Union in 2004.

1989

1993

1999

2004

Czech employers' hiring outlook remains optimistic

ManpowerGroup Czech Republic has released results of the Manpower Employment Outlook Survey for the second quarter of 2016. The survey was conducted by interviewing a representative sample of 753 employers in the Czech Republic. All survey participants were asked, "How do you anticipate total employment at your location to change in the three months to the end of June 2016 as compared to the current quarter?" Czech employers report an optimistic hiring outlook, with 7% of employers forecasting an increase in staffing levels, 3% anticipating a decrease and 89% expecting no change. Twenty-six percent of large employers with over 250 employees indicate that they will create jobs in the coming period.



General Electric to build turboprop-engine centre of excellence in the Czech Republic

GE Aviation has announced its plan to build a new centre for development, testing and production of turboprop engines in the Czech Republic. The company confirmed the project in a memorandum signed jointly with the Czech government. In 2020 the centre will begin manufacturing modern advanced turboprop engines for use in a new single-engine aircraft from the American company Textron Aviation, which was introduced in November 2015. Before opening the new centre, GE Aviation will develop and test the engine in the Czech Republic. The company plans to create more than 500 jobs here. The investment is a result of cooperation between GE Aviation and CzechInvest, as well as the latter's long-term strategy aimed at supporting the development of key high-tech sectors in the Czech Republic.

Oracle to hire 1,400 specialists in Europe, the Middle East and Africa.

A recruitment campaign will also be conducted in Prague

Oracle will create more than 100 jobs and open new offices in Prague. Development of the cloud-computing business has led the company to recruit new employees, particularly specialists focused on sales of cloud solutions. These

new sales professionals will play a key role in the company's growth in this region. Oracle announced its plans during a press conference on 14 January 2016. "Central Europe represents a tremendous opportunity for Oracle and we are therefore focusing on hiring talented sales experts in order to take full advantage of this opportunity," says Josef Švenda, general manager of Oracle Czech.

A123 Systems to open new manufacturing plant in the Czech Republic

A123 Systems, which is involved in the development and sales of advanced lithium-ion batteries and systems, is expanding its operations in Europe. The company's new manufacturing plant, which it will open in Ostrava with support from CzechInvest, will supplement its existing technology centre in Stuttgart, Germany. The plant is being constructed in the CTPark industrial complex. It is expected that the plant will produce 600,000 batteries per year in the initial phase of operation. The company plans to employ 150 people at the new facility. A123 Systems provides alternatives to traditional technologies and thus offers more environmentally friendly systems with reduced fuel consumption and lower emissions. The company currently operates production facilities also in China and the United States.



CzechInvest wins prestigious Site Selectors Guild Award, named Agency of the Year 2016

CzechInvest has been recognised with a Site Selectors Guild Excellence in Economic Development Award, which was presented to the agency's East Coast representative, Jan Chmelík, on Friday, 26 February 2016. The awards ceremony was held in connection with the Site Selectors Guild Annual Conference 2016 in Nashville, Tennessee. The annual award is presented by the Site Selectors Guild for successes achieved in the area of economic development. Of the twelve nominees, three winners were selected from regions of the United States. Only one agency, namely CzechInvest, was recognised with an award. The main aspect judged in the competition was the progress that CzechInvest has made over two decades from implementation of purely production-oriented projects to

highly sophisticated high-tech production, R&D and services projects. Other highly rated aspects included the agency's transparency and attractive investment incentives, particularly the incentives system, which can be seen in full on the CzechInvest website.

CzechInvest anticipates million-dollar investments from China

In 2015 CzechInvest negotiated investments from China in the value of more than USD 46 million. This represents tremendous growth in comparison with the previous year, when the annual volume of Chinese investments fell short of USD 20 million. More investments, which could bring more than USD 211 million to the Czech Republic, are under discussion. The latest investment enquiries were elicited by CzechInvest, led by CEO Karel Kučera, during a visit to China. "The Czech Republic is finally starting to reach the level of the other countries into which Chinese capital has been flowing since 2003," says Karel Kučera. "For example, China was the biggest investor in Germany in 2014 with a nearly 20% share in all investments."

Czech labour market showing further growth and positive development

By the end of 2015, the unemployment rate had fallen below 6% and is expected to remain at that low level in 2016. The number of available jobs is growing, as is demand for qualified candidates. This has made it difficult for employers to fill positions in certain segments, as applicants have the option of choosing from several job offers. Despite the significant rise in the number of available jobs and certain difficulty with filling them, companies have not yet resorted to significant wage increases. A detailed overview of the salary levels per segments and the full report are available at www.hays.cz.

CTPark Plzeň welcomes electronics manufacturers

CTPark Plzeň has registered a sharp increase in the number of new clients from the electronics and eCommerce sectors since the start of 2016. More than 55,000 m² of space has been leased by companies such as Lidl, a German retailer and eCommerce provider (30,000 m²), automotive manufacturer Lear (5,000 m²), and a major Chinese multinational white goods and electronics manufacturer (10,000 m²). Japan's SGL and Lagermax Spedice each took an additional 5,000 m². Thanks to its strategic location near the city centre with good access to the D5 motorway, CTPark Plzeň is ideal for companies engaged in high-tech manufacturing, R&D and product development.

CzechInvest arranged investments worth nearly USD 1.8 billion in 2015

A third of the investments involve high-tech projects

- 106 investments arranged in the aggregate value of nearly USD 1.788 billion
- high-tech projects comprise 30% of the investments
- more than 14,000 newly created jobs, of which 2,500 in the Ústí and Moravia-Silesia regions

Top 5 investments by country of origin

Country of origin	Investment amount in USD million	Number of projects	Jobs
United States	397.62	22	3,464
Germany	373.47	21	2,468
Czech Republic	326.824	28	1,233
Taiwan	140.86	2	3,375
South Korea	127.05	4	802

Top 5 investments by sector

Country of origin	Investment amount in USD million	Number of projects	Jobs
Vehicle manufacturing	491.92	25	3,097
Metalworking and metal-processing	395.61	17	1,106
Electronics	183.51	7	4,194
Mechanical engineering	166.31	6	770
Plastics	155.51	12	640

In 2015 CzechInvest arranged 106 domestic and foreign investments, thanks to which nearly USD 1.788 billion will flow into the Czech economy and exactly 14,040 new jobs will be created, including 2,500 in the Ústí and Moravia-Silesia regions, which have long struggled with high unemployment. This is in spite of a reduction of investment aid intensity

introduced by a European Commission regulation in 2014 that has made it more difficult to attract investors to the country. The largest volume of foreign investments is from the United States, Germany and Taiwan. There has also been significant growth in investments from China. In previous years, CzechInvest mediated Chinese investments in the maximum annual value of USD 21

million, whereas last year that figure reached USD 47 million.

As usual, the largest share of investments is in the vehicle-manufacturing sector, as well as in metalworking and metal-processing and the electronics industry. However, comparable investment growth can be seen in the areas of ICT, technology centres and shared-services centres. ■

Obligation to disclose agreements with public entities comes into force on 1 July 2016

The Act on the Register of Agreements will come into force on 1 July 2016. Its aim is to facilitate greater transparency in dealings with the public sector. In fact, the act requires that any agreements entered into with specific public entities be disclosed in full-text format on a government website. If the given parties fail to disclose an agreement, such agreement will automatically become null and void; however, this nullity sanction will only apply to agreements entered into after 1 July 2017. "Given the severity of this sanction, the act should receive appropriate attention from

any businesses dealing with the public sector," said Štěpán Štarha, senior associate at Havel, Holásek & Partners.



AFI appoints new honorary member

The Association for Foreign Investment has appointed a new honorary member, Mr. Tomáš Hruďa, who thus joins the group

of eight members appointed in recent years, namely Zdeněk Jana, František Dostálek, Seiji Nakagoshi, Tomáš Ctibor, Jan Grozdanovič, Jan Ámos Havelka, Martin Jahn and Václav Petříček. Honorary membership is granted to some of the most important individuals who have significantly contributed to the positive image of the Czech Republic, the AFI and CzechInvest abroad, thus aiding the development of the investment environment in the Czech Republic.

Exiteria is doubling its logistics network's capacity

Leading CEE online furniture and household accessories retailer Exiteria, which runs the MABYT and MT-nabytek eshops

in the Czech Republic, Slovakia and Hungary, is nearly doubling its logistics network's capacity with a new warehouse at P3's D11 park northeast of Prague. The 10,787 m² facility is being developed for Exiteria on a build-to-suit basis by P3, a top-five pan-European specialist logistics property owner, developer and manager. Serving the Bohemia region, the new facility will supplement Exiteria's existing building in Brno. Exiteria's investment was the catalyst for P3's development of D11. The company is developing 20,000 m² in total, with Exiteria taking half and the rest being made available to lease. In addition, permits are in place for a further 100,000 m² of logistics space at D11.

Pfisterer Holding is setting up a new production facility

The German company Pfisterer Holding is setting up a new production facility in Kadaň. A leader in the field of electrical engineering, Pfisterer produces, among other things, components for power supply, industry and transport. The 19,000 m² facility will employ up to 400 people. Industrial real estate consultants from CBRE assisted Pfisterer with site selection and lease negotiations. The facility is part of CTPark Kadaň, one of the latest industrial

parks in the portfolio of the developer CTP. Pfisterer selected the park for its convenient location near the German border, the local workforce skilled in the area of power technology and the possibility to immediately lease an existing facility.



AFI celebrates its 20th anniversary

The Association for Foreign Investment celebrated its 20th anniversary at Prague's Žižkov Tower on 27 January. The event commemorating this important milestone was held under the auspices of the Czech prime minister, Bohuslav Sobotka. The event was attended by representatives of the Parliament, Senate, embassies, local government, chambers of commerce, government agencies and investors. The opening remarks

of the evening were given by Kamil Blažek, chairman of the AFI, and Karel Kučera, CEO of CzechInvest. The event featured the release of the AFI's Investors' Guidebook, a unique publication that has the purpose of promoting the Czech investment environment and easing investors' entry into the country. "It is exceptional that a group of renowned companies in the areas of consulting, legal services, HR, commercial real estate and engineering have come together with the aim of contributing to the promotion of the local investment environment. The result of this endeavour is not only the fact that the AFI has been in existence for twenty years, but also the creation of this unique publication," said Kamil Blažek. ■



M&A

Intellectual Property

Dispute Resolution

Banking

Real Estate

KONEČNÁ & ZACHA

Corporate

IT

IT

Real Estate

Commercial

M&A

Energy

Association for Foreign Investment



About the AFI

The Association for Foreign Investment (AFI) is a non-governmental, non-profit organisation representing a group of leading global and regional firms actively supporting investors. The AFI focuses on foreign direct investment, export of investments and services, commercialisation of R&D, support for innovative start-up projects and development of the Czech business environment.

AFI was one of the instrumental organizations for our company when deciding about the final location of our investment project. AFI's members delivered professional service from key advisory sectors and helped us to understand the local tax/legal/HR/construction environment, which was crucial for making the right decision. This service is definitely worth recommending to any potential investor coming to the Czech Republic.

Petr Pospíšil

General Manager
External Affairs
Nexen Tire



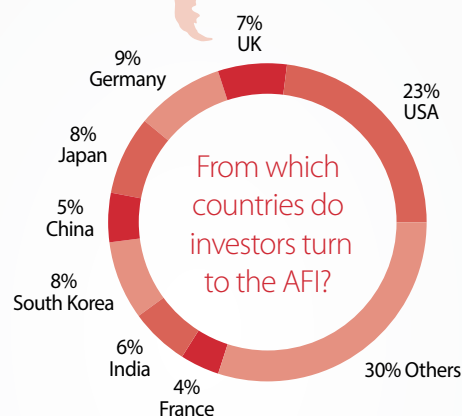
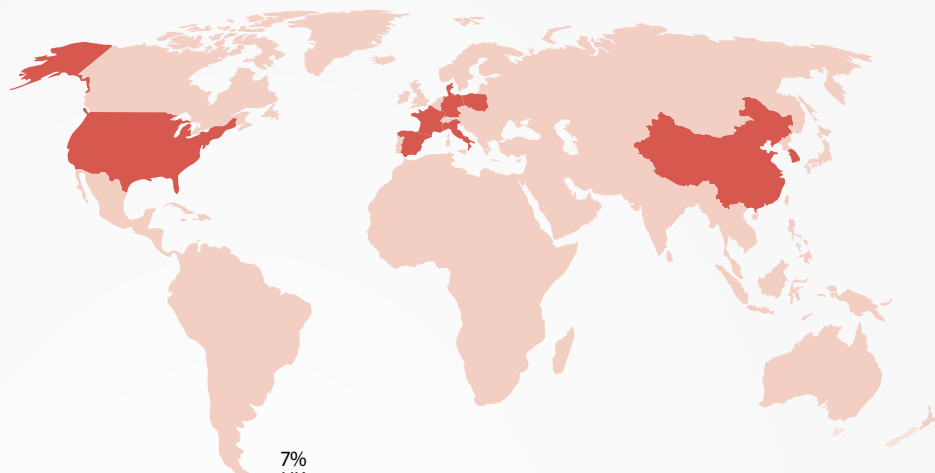
The fact that a group of renowned companies in the areas of consulting, legal services, HR, commercial property and engineering came together with the purpose of contributing to the promotion of the local business environment is an exceptional occurrence in the world. We want to offer our expert know-how and unique experience, enhance the Czech Republic's positive image abroad and help to demonstrate the country's advanced state of development and readiness for further investments.

Kamil Blažek

Chairman
Association for Foreign
Investment



Where did the AFI hold events in 2015?



Note: data for the period 8/2014 - 7/2015.

How to reach us

- www.afi.cz
- [@AFI_czech](https://twitter.com/AFI_czech)
- [LinkedIn](https://www.linkedin.com/company/afi-czech)

AFI members provide professional services in a broad range of areas



The other jewel in the crown

While the automotive industry is generally considered to be the main driver of the Czech economy, the country's electronics industry is also impressive in its own right.

More than anything else, the Czech electronics and electrical engineering sector is based on its long tradition and the extensive skills of its employees. The entire industry accounts for more than 14% of Czech manufacturing output, which makes it the second largest sector in the economy. Over 17,000 companies employ more than 180,000 workers in the sector here. Most of the sector's output is exported, mainly to markets within the European Union. Almost one-quarter of the country's exported goods are made in this particular industry.

History

The Czech electrical engineering and electronics can boast a long tradition based especially on the Tesla group. Tesla's history in the Czech Republic dates back to 1946 and the trademark is nowadays registered in more than 100 countries around the world. Tesla operated as a state-owned monopoly producing televisions, broadcasting equipment and radio receivers, as well as light bulbs and electronic components. In the area of the former Soviet Union there are still more than 1,500 functioning Tesla transmitters ensuring roughly 60% of the region's radio and television broadcasting. Besides the Eastern Bloc, Tesla

sold its products to aligned developing nations, such as Egypt, Algeria, Yemen and Syria, among others.

Tesla maintained its very good reputation in the CMEA countries and was a leading manufacturer of measuring instruments, producing devices for medical facilities as well as nuclear and analogue-computer technology.

During the transformation of Czech economy from state-planned to open market, individual factories were gradually shut down during the process of privatisation or at some time thereafter. At its peak, the state-owned Tesla employed approximately 30,000 people. Even though the company fell out of step with the technological development elsewhere in the world due to the political situation, Tesla's 45-year existence fostered effective cooperation among Czechoslovak engineers and electronics technicians, thus creating a sufficient technology base for the Czech electronics sector after the revolution in 1989.

The Czech electronics today

Since the 1990s the Czech Republic has welcomed numerous investors in various sub-sectors of the electronics industry. The whole sector is growing, particularly due to the current economic boom and the presence of well-known manufacturers.



Do you want to know more about the electronics sector in the Czech Republic? Download the free brochure from CzechInvest!

Selected investment projects

Company	Country of origin
Panasonic	Japan
ABB	Switzerland
TE Connectivity	Taiwan
Foxconn	USA
Laird Technologies	Great Britain
Daikin	Japan
ON Semiconductor	USA
Bang & Olufsen	Danmark
Siemens	Germany
FEI Company	USA

Source: CzechInvest, 2016

The Czech Technical University in Prague is the oldest non-military technical university in Europe

1707

The first "Piette Křižík" arc lamp designed by Dr. Ing. František Křižík

1880

First tramway in the Austro-Hungarian Empire operated in Prague

1896

The first prototype of the Kaplan turbine developed in Brno

1919

First medium-wave radio transmitter produced in Czechoslovakia

1932

Functional prototype of the electron microscope developed

1950

First television transmitter system installed in Prague

1953

Integrated circuits first manufactured in Czechoslovakia

1967

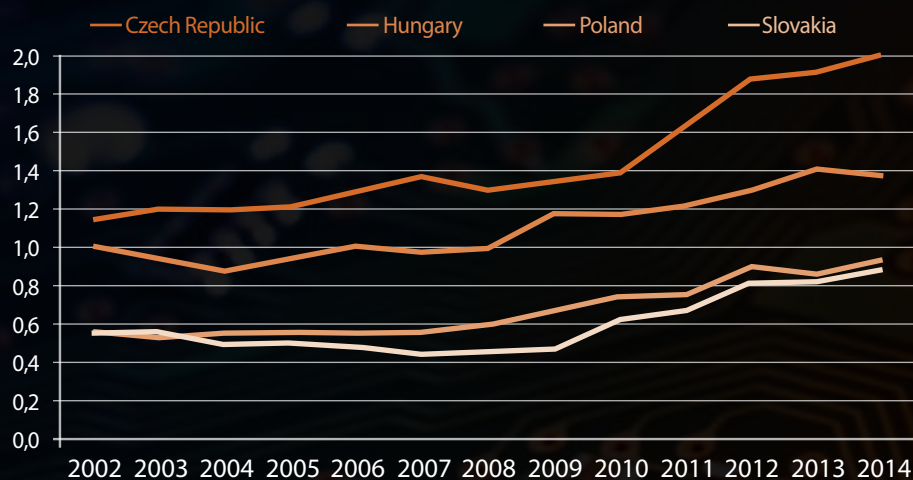
Tamara passive radar system developed

1987

Thirty percent of the world's electron microscopes produced in the Czech Republic

2014

Total expenditure on R&D (Percentage of GDP)



Source: Eurostat, 2016

The country's long tradition in the electronics sector, together with its solid educational system and strategic location, has attracted numerous foreign companies in the electronics sector, which are evenly distributed across the entire country. Consumer electronics production is represented by Panasonic, the largest flat-panel television manufacturer in the Czech Republic. Other television manufacturer operating here is Chang Hong from China. One of the most important company in the consumer electronics segment is Bang & Olufsen, which made its first expansion outside of Denmark when it set up a facility in the Czech Republic serving not only for production of unique audio systems, but also as an R&D facility. The company is currently transferring its entire production portfolio to the Czech Republic, which means that its facility in Kopřivnice will serve the global market.

A great example of a successful company that is expanding here is the Taiwanese electronics contract manufacturer Foxconn. This company already has two factories in the Czech Republic and now wants to grow bigger and has thus signed a memorandum with the Czech government about new investments in an R&D and design centre that will serve the whole European market. Wistron, another Taiwanese OEM company operating here, Wistron, is mainly a manufacturer of LCD Panels, though its facility in Brno also produces computers and servers. Other leading EMS providers with manufacturing facilities in the Czech Republic include the Belgian firm Connect

Systems, Integrated Microelectronics Inc. from the Philippines, and the American firm Flextronics, which also has a design centre in Brno, the second largest city of Czech Republic. Many electronics companies are also important suppliers to other branches of industry, in particular the automotive and mechanical-engineering industries. The rapid development of the automotive sector in the Czech Republic and neighbouring countries has attracted a number of well-known companies. Panasonic established its second Czech facility in the city of Pardubice, where it produces audio technology for a wide range of European automotive OEMs. Continental makes dozens of types of electronic components for cars at its locations in the Czech Republic. The German company MD elektronik is continuously expanding its automotive cable business in the Czech Republic was one of the most active investors here in 2015. Other automotive electronics suppliers operating here include, for example, Siemens, Bosch, Daikin, TE connectivity and Kostal. Lighting equipment for automobiles is manufactured in the Czech Republic by Hella Autotechnik, Varroc Lighting Systems and Automotive Lighting. With respect to high-value-added products, it is very important to mention that every third electron microscope manufactured in 2014 originated in the Czech Republic. The Brno-based companies FEI, Tescan Orsay Holding and DeLong Instruments are not only producers, but also conduct R&D activities with global impact.

AVX Czech Republic, a subsidiary of the US company AVX, started production of tantalum capacitors in Lanškroun in 1993. Fellow US group Vishay Intertechnology has also moved production of capacitors and resistors to the Czech Republic and operates multiple plants in the country. US-based ON Semiconductor has a production facility in Rožnov, which has benefited from the company's decision to relocate production to the site from France and the US. ON Semiconductor also operates a design centre in Brno. In 2012, ON Semiconductor announced that it had expanded its operations in Rožnov with the opening of a new R&D facility. In March 2010, the Swiss industrial group ABB acquired the semiconductor business of the Czech company Polovodiče.

The additional production capacity for high-power semiconductors will help ABB to cope with the expected rising demand fuelled by growth in renewable energy and efforts to improve energy efficiency. One of the strongest parts of the Czech electronics industry consists in cooperation between universities and private companies. Dozens of foreign and domestic companies are collaborating with local technical universities, thus providing impetus to improve the quality of education and the abilities of graduates. This trend is the most visible in Ostrava and Brno, which are home to both great technical universities and great electronics companies.

Outlook

The future is the biggest issue for electronics manufacturers. How is Industry 4.0 affecting the sector? What about supply channels, the ability to find new clients and production capacity of production? What effect will it have on employment? Topics like Industry 4.0 and the Internet of Things are the most discussed subjects among companies. Despite our inability to predict what the future holds, CzechInvest is actively trying to connect people from various fields of the economy in order to help them communicate and find solutions. Such activities are also conducted by the Electrical Engineering and Electronics Association of the Czech Republic, which brings together companies of all sizes accounting for 70% of Czech electronics production. ■

Martin Kratochvíl
Sector Manager for Electrical
Engineering and Electronics
CzechInvest

Czech electron microscopes lead the world

The success of a company is not measured by a single milestone or award, but rather by its refusal to stagnate. This is the path that TESCAN has taken since its inception – from rented offices for its five founders, the company has grown into a multinational corporation with more than 400 employees and two thousand microscopes installed around the world. As one of the world's five main players in the field of electron microscopy, TESCAN is strengthening its position and expanding its portfolio with optical microscopes and other technologies in the area of charged-particle optics. A specialty of the company comprises systems modified precisely according to customers' requirements in order to maximally meet their needs in research and industry. The company is continuously increasing its market share, especially by means of its own development as well as through cooperation with prestigious institutions and the academic sphere in connection with technology transfer. Examples of this are the Cooperation of the Year 2013 prize awarded to TESCAN and Brno University of Technology for their development of a revolutionary holographic microscope (for more information about Cooperation of the Year, see the R&D Focus section in this issue of Czech Focus) and the 2015 Photonics Prism Award for the company's unique correlative electron microscope. In 2011, TESCAN's research and development resulted in the first system of its kind integrating a xenon plasma ion source and a scanning electron microscope. ■

Václav Janišťin
Head of Marketing
TESCAN ORSAY HOLDING

The one and only

Bang & Olufsen's Kopřivnice plant is the company's biggest manufacturing facility and the only one outside of Denmark

Peter Bang and Svend Olufsen, two young Danish engineers, founded Bang & Olufsen in 1925. Since then, Bang & Olufsen has grown into a global company with approximately 2,300 employees numerous subsidiaries in Europe, America and Asia. In 2004, Bang & Olufsen decided to establish a branch in the Czech Republic. Considering the good local conditions, availability of highly qualified employees and fantastic leisure activities, the company located its new plant in Kopřivnice, at the foot of the beautiful Beskids Mountains near Ostrava. With more than 500 employees from ten countries, the Kopřivnice plant is currently Bang & Olufsen's largest manufacturing facility and its only one outside of Denmark. The Czech plant manufactures high-end, premium products with exceptional performance and design. Excellence in design is not only reflected in the company's products – visitors and new employees are amazed by award-winning architecture of the factory building. Over the years, Bang & Olufsen has been a leader in creating innovative and timeless audio and video products for homes across the globe. These days Bang & Olufsen manufactures a highly distinctive and exclusive range of televisions, sound systems, loudspeakers and multimedia products that combine technological excellence with emotional appeal. That's why Bang & Olufsen is one of the world's top 20 brands. ■

Pavel Merhout
Managing Director
Bang & Olufsen Kopřivnice

Czech ELKO EP takes smart homes worldwide

The Czech company ELKO EP has been one of the leading European players in the field of residential and industrial electrical installations for more than 22 years. Since 2007, the company has been developing and producing its own intelligent electrical installation system called iNELS Smart Home & Building Solutions. At present, ELKO EP Holding employs nearly 300 people, exports to 66 countries around the world and already has 11 foreign branches. The company is proud of its own production of components and its own development and innovation of new products. It is also able to offer its customers instantaneous distribution and rapid, flawless service. Thanks to the company's own R&D centre, ELKO EP is able to react dynamically to today's trends, allowing it to be one step ahead of the competition. ELKO EP is aided by the fact that the entire solution production process is "in house", from design, software development and applications to manufacturing, marketing, sales, aftercare and monitoring. The uniqueness of iNELS lies in its versatility for use in a wireless version in apartments and houses. A BUS version is available for use in large buildings, such as villas, hotels, commercial buildings, office buildings and even airports. Regardless of the version used, the characteristics remain the same for all buildings with the following features: savings, convenience, automation and security. ■

Jiří Konečný
CEO
ELKO EP

Panasonic's starring role in the Czech Republic

Panasonic Corporation, a global leader in consumer and system electronic products, operates in the Czech Republic on two main fields: Panasonic AVC Networks Czech (PAVCCZ) manufactures televisions in Plzeň and Panasonic Automotive Systems Czech produces car audio products in the city of Pardubice. Built in 1996, the television factory was the first major Japanese investment in the Czech Republic following the Velvet Revolution. This year marks the twentieth anniversary of PAVCCZ and indeed there is a remarkable success story behind it. As Panasonic Corporation's only TV manufacturing operation in Europe, PAVCCZ delivers products not only to all European countries, but also to Russia and South Africa and over the long term it has become the Czech Republic's third-biggest exporter. To date, the Plzeň factory has produced over 34 million televisions, which in global terms makes PAVCCZ the largest Panasonic TV manufacturing company in the world. The plant's production portfolio has indeed changed over time, from original CRT (cathode ray tube) televisions to plasma and LCD, and finally to the current LED and OLED products. Additionally, production of DVD and Blu-Ray recorders was introduced in 2015. Panasonic has become part of society in the Plzeň region, supporting numerous CSR projects and engaging in extensive cooperation with the University of West Bohemia. Its business success comes from the symbiosis between Plzeň City Council and the company's management, as well as between Japanese executives and local employees. ■

Radek Vach
Business Planning Department
Panasonic AVC Networks Czech

Target sectors of the Czech Republic

Automotive

The Czech Republic has one of the highest concentrations of automotive-related manufacturing and design activity in the world. With 122 motor vehicles per 1,000 inhabitants, the country has the second highest rate of production per capita in the world. It is also the biggest producer of passenger cars in Central and Eastern Europe with nearly 1.3 million units manufactured annually.

Top investors: Hyundai Motor | Manufacturing Czech | Iveco Bus | Škoda Auto | Tatra Trucks | Toyota Peugeot Citroën Automobile
Contact: Richard Schneider | Tel.: +420 296 342 513 | e-mail: automotive@czechinvest.org



Business Support Services

The Czech Republic is leader in the business support services sector in Central and Eastern Europe. The shared-services centres of DHL, Accenture, ExxonMobil, IBM and more than 200 other companies employ over 65,000 specialists in the Czech Republic. In addition to Prague, the country has several strong hotspots ready for international projects in regional centres.

Top investors: DHL | Accenture | ExxonMobil | IBM | Infosys
Contact: Matouš Kostlivý | Tel.: +420 296 342 514 | e-mail: fdi@czechinvest.org



Aerospace

With more than 32,000 aircraft 37,000 engines delivered, the country has made a name for itself in aerospace based on outstanding quality, reliability and innovation in the industry. From basic production to final aircraft assembly and cutting-edge R&D programmes, most Czech aerospace companies work with top industry players.

Top investors: Aero Vodochody Aerospace | Bell Helicopter | GE Aviation Czech | Honeywell Aerospace | Latecoere
Contact: Marek Aubrecht | Tel.: +420 296 342 458 | e-mail: aerospace@czechinvest.org



Nanotechnology and advanced materials

The nanotechnology and advanced materials sector brings together the Czech Republic's traditional focus on textiles, glassmaking, the chemical industry and electrical engineering with its current emphasis on the automotive industry, aerospace and biotechnology. The rapid development of this sector has been aided by innovations of global significance in electron microscopy and nanofibres, which have brought the Czech Republic to the forefront of global development in these fields. One-third of global production of electronic microscopes is carried out in the Czech Republic.

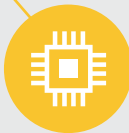
Top investors: AGC | Contipro | FEI | Saint-Gobain | TESCAN ORSAY HOLDING
Contact: Jiří Fusek | Tel.: +420 296 342 809 | e-mail: nano@czechinvest.org



Electronics and electrical engineering

Manufacturing and R&D activities in the country include, for example, semiconductors, optoelectronics, consumer electronics and even robotics. The industry accounts for more than 14% of Czech manufacturing output, which makes it the second-largest sector of the economy.

Top investors: ABB | Bang & Olufsen | Foxconn | ON Semiconductor | Panasonic
Contact: Martin Kratochvíl | Tel.: +420 296 342 569 | e-mail: electro@czechinvest.org



Life sciences

The Czech Republic has a rich heritage of discoveries and innovations in the field of life sciences, ranging from the laws of genetics laid down by Gregor Johann Mendel to the invention of soft contact lenses and development of groundbreaking antiviral drugs by Professor Antonín Holý. Development of the life sciences sector is supported by effective patent protection, adoption of GMP, GLP and GCP standards and the country's integrated healthcare system supported by cutting-edge research centres, making the Czech Republic an attractive location for both R&D and manufacturing.

Top investors: Lonza | Merck | Otsuka Pharmaceutical | Teva Pharmaceutical | Zentiva, member of Sanofi Group
Contact: Hana Chlebná | Tel.: +420 296 342 803 | e-mail: lifesciences@czechinvest.org



ICT

The Czech Republic is one of Europe's top locations for ICT investments. Antivirus giants AVG and AVAST have both their origins and operations in the Czech Republic, which is also the only country using the Latin alphabet where Google is not the clearly dominant internet search provider, as it has a strong local competitor in Seznam.cz.

Top investors: AVAST | AVG | Microsoft | Red Hat | Tieto
Contact: Matouš Kostlivý | Tel.: +420 296 342 514 | e-mail: ict@czechinvest.org



High-tech mechanical engineering

The high-level technical know-how found in the Czech Republic has been shared over centuries, resulting in the world-class level of today's mechanical engineers, who are the sector's greatest asset. Mechanical engineering plays a major role in the Czech economy and the country's large concentration of mechanical-engineering companies makes the Czech Republic an engineering hub.

Top investors: Bosch | Comco Europe | Edwards Vacuum | Siemens | OTIS
Contact: Milan Kilič | Tel.: +420 296 342 805 | e-mail: engineering@czechinvest.org



Energy and environment

Technologies for reusing industrial waste in new products, increased use of renewable energy sources and support for energy savings through the introduction of smart energy distribution systems are of paramount importance in the sector. The country offers investors in these areas both technical competence and manufacturing excellence that, combined with cost effectiveness, create favourable conditions for new investments.

Top investors: Doosan Škoda Power | Mavel | Solar Turbines | Stora Enso | Vyncke
Contact: Jan Zapletal | Tel.: +420 296 342 515 | e-mail: energy@czechinvest.org



The Czech Republic and South Korea: a positively developing partnership

The miracle on the Han River has been a topic of discussion for a long time. South Korea is a country where incredible changes have happened within just the past fifty years.

A society which faced famine during and after the Korean War has managed to become the twelfth most developed economy in the world. South Korea is the leading country in industries such as semiconductors, electronics and shipbuilding. Its strong position is recognised in automotive and steel production as well. The existence of Samsung, Hyundai and LG, top brands well known around the world, suggests that the economy is export oriented and supported by giant conglomerates called “chaebols”.

Partnership mainly in the automotive industry

The official relationship between the Czech Republic and South Korea started right after the Velvet Revolution. The collaboration has developed significantly in the past ten years. In February 2015, the Czech Republic signed a strategic partnership agreement with South Korea and in December of the same year the Korean president visited Prague to confirm the relationship and to support the opening of new areas of mutual business cooperation. The first significant example of the Korean presence in the Czech Republic and the beginning of intensive economic cooperation between the two countries occurred at the end of the last century. The automotive division of the Daewoo group (now GM) acquired Avia, a Czech truck manufacturer, in 1995. Nowadays, Korean companies rank among the most active exporters and investors as well. The Czech Republic has become one of the key countries for establishing branches and manufacturing facilities in the CEE region that are subsequently used for business expansion to other EU markets.

In 2005, the car manufacturer Hyundai Motor Group decided to exploit the combination of perfect location and traditionally strong manufacturing skills to establish its key European plant in Nošovice. This strategic investment pushed Korean suppliers to follow their main client. Dozens of related production facilities have been founded in the Moravia-

Top 10 Korean investors in the Czech Republic

Company	Industry	Investment volume (in USD million)	Jobs created	Year
Hyundai Motor Company	Automotive	1,401.89	3,514	2006
Nexen Tire Corporation	Rubber	1,033.625	1,384	2014
Hyundai Mobis	Automotive	183.42	1,775	2006, 2014
Sungwoo Hitech	Automotive	157.59	1,541	2005, 2007
ARRK – Plakor	Automotive	72.02	504	2006
Doosan Škoda Power	Machinery	43.79	56	2013
Dymos	Automotive	34.5	422	2006
Dongnee	Automotive	32.74	238	2006
Hyundai Hysco	Automotive	23.08	70	2006
Sejong	Automotive	21.36	270	2006

Silesia region. Koreans have invested over CZK 76 billion (more than USD 3.25 billion) in the Czech Republic since then, thus placing South Korea among the top three non-European investing countries. About fifty Korean companies are currently operating in the country, providing jobs to almost twelve thousand people. The automotive industry dominates in terms of Korean FDI in the Czech Republic. South Korea is also gaining greater visibility in the Czech Republic as new investments are announced, e.g. the Nexen Tire plant and the expansion of Hyundai Mobis. Key suppliers of HMMC such as Sungwoo Hitech, Hanwha, Plakor, PHA and many others have proven their competitiveness and started to expand their production as orders from new clients increase. The successful development of clients' structure opens new opportunities for other companies such as Tier 2 and Tier 3 vendors to take similar steps.

Strategic decisions

In 2009, the Korean chaebol Doosan looked around the world to enrich its assortment by technologies enabling supplies of complete solutions in power generation and decided to acquire Škoda Power for its top turbine manufacturing technology. The Czech subsidiary has enjoyed positive synergistic effects since the acquisition and has increased

its worldwide sales remarkably. Doosan's presence in the Czech Republic opens doors to other energy projects within and beyond Europe.

Korean companies perceive the EU as the most competitive market. Success here represents a benchmark for the future and is respected worldwide. Therefore, both major conglomerates and mid-sized companies are slowly changing their strategies. Focus on diversification of customers leads to business stability fitting the new business culture. In other words, Koreans look to Europe not because of breathtaking sales but to gain an impressive reference. Due to the trend of the main European companies demanding that their suppliers be close to their manufacturing sites, Korean suppliers have moved here. They adopt measures in production in whatever industry and establish in-house testing or R&D centres in order to fulfil clients' requirements. The Czech Republic offers many unique benefits that have a significantly greater impact than just reduction of production costs. The country's strong industrial tradition, workers' loyalty and skills, new ideas and creativity are strong points appreciated by Korean decision-makers. ■

Martin Jírovec
Head of Seoul office
CzechInvest

A Korean success story in the Czech Republic: Hyundai Mobis

Korean companies have recently been gaining prominence while becoming household names around the world. Most of us immediately think of the giants Samsung and Hyundai. Mobis is affiliated with the latter and employs nearly one thousand people in the Czech Republic, a figure which will nearly double in the coming years thanks to the opening of a new plant for production of headlamps in Mošnov. The Mobis Automotive Czech factory was established on a greenfield site in Nošovice near Frýdek-Místek in December 2006. We are thus celebrating the tenth anniversary of the company's operations in the Czech Republic. Our factory covers an area of 74,000 m² and the total investment is equal to EUR 72 million. We are the biggest supplier of auto modules for Hyundai Motor Manufacturing Czech. Our employees are behind the heart of each vehicle

manufactured by Hyundai here. We supply front end modules, front and rear chassis modules, and cockpit modules for the Hyundai i30, ix20 and Tucson models. The aforementioned modules comprise 60% of all the cars that roll off the assembly line at a rate of less than a minute. In 2015, Mobis assembled each type of module for 342,000 Hyundai cars produced in Nošovice, which is 12,200 more than originally planned. We value the commitment of our employees, whose work contributed to the achievement of this demanding goal. Even though we have series production of modules for only one new model planned in 2016, this will not be an easy year, as the production plan was increased to 350,000 cars. But like last year, we are sure that the joint effort, commitment, abilities and skills of our employees will enable us to achieve this objective.

Mobis's ten years in operation in the Czech Republic, preparedness of the chosen site,

investment incentives and the strategically advantageous location in the region were the main reasons why the company decided to expand here and to build a new plant for production of headlamps in Ostrava-Mošnov. This project is the second-biggest investment of the past five years in the Czech Republic. The new factory will supply lamps for Hyundai in Nošovice and Kia in Žilina. We plan to manufacture lamps for roughly 750,000 vehicles per year during the first phase of the project from 2017 to 2020 and for one million per year after 2020. We are also planning to create more than 900 jobs in the new plant, while approximately 600 more jobs will be created by our suppliers. We are investing up to CZK 4 billion in the plant's construction. ■

*Ivan Leixner
Manager, General Affairs & Facility & Public Relations
Hyundai Mobis*

First Czech direct investment in Korea: Gold of Prague Brewery

In 2014 we happened across an English newspaper article about the Korean beer market and its upcoming deregulation for smaller and medium-sized producers. There are not many developed countries where such a significant sector would be subject to such a fundamental easing of restrictions. When we took a closer look at the situation, we identified a number of factors that together created a very interesting investment picture: brewing – a traditional Czech sector in terms of both beer production itself and production of technology, a rich and developed country where people like to enjoy themselves and don't mind paying for quality, the expectedly huge popularity of the Czech Republic and Prague in particular, and a stable business environment with good enforceability of rights. We established a branch in South Korea in 2015 and secured a suitable plot of land in the Foodpolis investment zone. In 2016 we would like to obtain a building permit and begin construction of a mid-sized brewery,

where a Czech brewmaster will brew high-quality Czech beer from Czech ingredients. In many respects, ours is a pioneering project. Among other things, it is the first Czech direct investment in South Korea and we are one of the first independent companies to build a brewery in Korea and the first to invest in the new Foodpolis zone. We are still fascinated by the unbelievable opportunities that Korea offers and, to the same extent, the regulatory and cultural differences between the Czech Republic and Korea never cease to surprise us. "Lost in translation" is one of the most frequently used phrases in our company. Thanks to the experience of our Korean and Czech employees, however, we have managed to avoid making any major mistakes. It is primarily necessary to prepare for the omnipresent written and unwritten rules and customs. Every field of human endeavour is caught in a web of such rules. A foreigner's ignorance of these may be temporarily tolerated in some cases, but you definitely cannot depend on that. Before

anything else, it is recommended that you find a reliable "cultural translator". Conversely, a Czech can be reassured by the fact that if you rely on the routine running of things, you won't be disappointed. South Korea and the Czech Republic are also very similar, as they are emerging export economies without abundant natural resources and with strong neighbours. Trade between the two countries will increase inexorably. Because my colleagues and I wanted to share our experience and gain new experience, in 2015 we established a chamber of commerce in cooperation with the Czech-Korean Society (Chamber of Commerce of the Czech Korean Society). The purpose of this chamber is to assist Czech and Korean companies with their mutual trade and establishing contacts. We believe that, thanks to the chamber, other Czech investors will soon follow us to South Korea. ■

*Lukáš Mikeska
CEO
Gold of Prague*

Foreign offices of CzechInvest

United States

In terms of the number of projects, the United States is the second-biggest investor in the Czech Republic after the European Union. This partnership fosters projects with high value added and creates skilled jobs especially in research and development, manufacturing and services.

Top investors

AT&T | Caterpillar Solar Turbines | GE Aviation | Honeywell | Johnson Controls

Contact

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Great Britain and Ireland

Great Britain is the Czech Republic's fifth-biggest export partner. Mutual trade has more than doubled since 2000. There are more than 300 British firms operating in the Czech Republic, which chose the country for their Central European headquarters.

Top investors:

Covidien | Dixons Carphone Group | Ricardo | Smiths Group | Tesco

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Germany

Germany is the Czech Republic's most important trading partner, occupying first place among source countries of foreign direct investments in the Czech Republic and accounting for approximately 22% of the total volume of investments in the country.

Top investors:

Bosch | Continental | Daimler | Hartmann | Siemens

Contact

Martin Partl
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Scandinavia

Scandinavian investors often view the Czech Republic as a gateway primarily to the CEE region, Germany and the rest of Europe. These investments very well illustrate the rising emphasis on knowledge and professional skills in combination with the country's high-quality innovation environment.

Top investors:

Bang & Olufsen | KONE | LEGO | Mölnlycke Health Care | Tieto

Contact

Jiří Fusek
+420 296 342 809
scandinavia@czechinvest.org



China

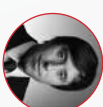
Chinese companies' interest in the Czech Republic has been rising over the past two years and the number of investments originating in China can be expected to grow. To date, CzechInvest has helped to mediate twelve investment projects of Chinese firms in the aggregate value of more than CZK 2.6 billion.

Top investors:

BW1 | Changhong Europe Electric | Saar Gummi Czech | Xi'an Shaangu power

Contact

Ondřej Koc
+86 13817792614
china@czechinvest.org



South Korea

South Korea is one of the three most important non-European countries for the Czech Republic in terms of investment inflow, as it is the source of the biggest investments in the country's history, such as those of the carmaker Hyundai and the manufacturer Nexen. South Korea is also the Czech Republic's first and currently only strategic partner in Asia.

Top investors:

ARRK – Plakor | Hyundai | Hyundai Mobis | Nexen | Sungwoo Hitech

Contact

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+82 10 2987 5632
seoul@czechinvest.org



Japan

Japan ranks among the traditional investors in the Czech Republic and accounts for the second-largest volume of foreign investments in the country. In terms of the number of Japanese manufacturing firms per capita, the Czech Republic is first in Europe.

Top investors:

Daikin | Denso | Olympus | Panasonic | Toyota Motor Corporation

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Warranty insurance in acquisition transactions

One issue that arises for both sellers and buyers in acquisition transactions is how to spread the risk equally between both parties.

Since the buyer's knowledge of a target company is generally based on the content of a due diligence investigation set up by the seller, the scope and content of the representations and warranties in relation to the target are of vital importance for the entire transaction. Although the content of such representations and warranties differs depending on the target's activities, they tend to focus on:

- the target's financial situation
- ownership right to the target's assets
- authorisation to conduct business and other activities operated by the target
- employees and statutory bodies, as well as relationships with affiliated entities
- conflicts and lawsuits
- environmental, state aid and other issues.

Any party engaged in an acquisition transaction is fully aware of the complexity of negotiations regarding the accurate content and duration of the representations and warranties, where the buyer requires maximum assurances from the seller with respect to the quality of the company being sold as well as any hidden risks. The situation becomes more complicated if, for any reason whatsoever, the seller needs to dismantle the structure that the target was a part of before it was acquired, as soon as possible after completion of the acquisition. A long validity period is generally required for representations and warranties. For instance, a standard ten-year period still applies to the ownership title to real estate, the standard buyer's protection period for tax issues is four years, and a period ranging from six months to four years is haggled over for other types of representations and warranties. One solution that is acceptable to both contracting parties could be an "Insurance of the Seller's Representations and Warranties under the Purchase Agreement", which is already offered by specialised insurance

institutions in the Czech Republic. If insurance of the ownership title to real estate is a commonly used insurance product, a blanket insurance policy for all (or the overwhelming majority of) representations and warranties is still new to both the Czech and European markets. However, it appears, based on practice, that concluding this kind of insurance definitely helps in simplifying and accelerating negotiations over the conclusion of a purchase agreement – the parties usually reach a compromise more easily over the scope and content of the representations and warranties. For instance, insurance can replace funds retained in an escrow account, thus freeing up money for the seller to use in a different and more effective manner.

This insurance relates to a highly specialised area of insurance coverage focused on the simplification and facilitation of acquisition-related processes. Therefore, an insurance policy transfers from the seller to the insurance institution certain potential risks associated with the transaction.

The insurance protects the buyer against financial damage or losses that could be suffered if the situation of the target winds up being worse than the buyer was aware of or due to the fact that the target lacks the specific features required by the buyer.

The scope of insurance always depends on the particular agreement between the parties concerned. However, it usually covers the buyer's risks associated with:

- false representations and warranties or tax obligations
- guarantees for future development of the target
- administrative sanctions.

Insurance that covers claims under the representations and warranties is generally offered to both the buyer and the seller. As a general practice, the insurance excludes claims resulting from criminal activity, contractual penalties and especially claims under a breach

(default) of which the insured was aware. The seller generally pays the insurance premium up to the pre-agreed insurance limit and, most frequently, as a lump-sum payment upon the conclusion of the insurance policy. The buyer negotiates with the insurance institution about the scope and terms of the insurance according to the buyer's needs and the purchase agreement is amended accordingly.

If the contracting parties intend to take out insurance covering representations and warranties, they must take into account that this insurance is usually concluded under foreign (most frequently English) law. The insurance institution also carries out its own due diligence investigation of the target (even though it relies a priori on the results of the due diligence conducted by the buyer), which can prolong the period for completing the transaction or might result in the discovery of hitherto unknown facts and risks, which have to be included when considering the timing of the transaction. Another key factor is the proper setup of legal relationships among all parties involved in the transaction. A policy is concluded whereby the insurance covers the seller's liability for a breach of the representations and warranties; therefore, the seller's liability cannot be excluded by means of any arrangement or provision. In addition, the insurance institution has a general right to seek compensation for damage from the liable party, which could affect the entire purpose of insuring the risks noted above. These factors must therefore be taken into account and proper action must be taken in this regard when concluding the insurance policy and purchase agreement. Generally, we can conclude that the positives outweigh the negatives. Therefore, the above-mentioned insurance product is likely to see further growth. ■

*Roman Pečenka
Partner
PRK Partners*

Industry 4.0

A major change is coming

Industry, the economy and society as a whole are undergoing fundamental changes brought about by the introduction of information technologies and artificial-intelligence systems into production, services and all other sectors of the economy. The impact of these changes is so radical that they are being spoken of as the fourth industrial revolution.

The essential aspect is the speed at which change is taking place. Over the course of centuries, employment has historically shifted from agricultural to industry and from industry to services. The basic vision of the fourth industrial revolution was first presented in 2011 and the rate of change is no longer expressed in decades, but in years or even months. The Czech Republic is well aware of the fact that it must respond to these trends, mainly because it ranks among the most industrialised countries in Europe. However, the recent rapid development offers tremendous opportunities with respect to sustainability and increasing the productivity of industrial production and services. In September 2015, the Ministry of Industry and Trade of the Czech Republic drafted the Industry 4.0 National Initiative, which explains the specifics of the Czech economy in relation to the start of the fourth industrial revolution.

The Czech Republic has abandoned its strategy of keeping labour costs low in order to attract foreign investment and has unambiguously shifted its focus to the potential of business in sectors with high value added rather than medium value added, as was previously the case. For example, foreign investors are showing an increasing tendency to invest in first-rate workplaces. Unlike the assembly plants built here in the past, however, such advanced facilities require extensive reinvestments and a skilled workforce. Smart factories using cyber-physical systems will take over simple and repetitive tasks that are currently performed by people. New positions requiring a high level of qualifications will be created. Methods of machine perception, auto-configuration and auto-diagnostics, and computer interconnection of machines and parts will gain prominence.

The Czech Republic is well positioned to join in and take advantage of this revolution. Especially highly valued aspects in this respect

are the close ties between Czech enterprises and global technology leaders, which are often the owners of Czech firms, as well as the qualified human resources needed to develop innovative solutions. High-quality technical education is one of the Czech Republic's strengths. Czech engineers are accustomed to lifelong study and improvement of their knowledge and skills. The Czech government's obvious interest in investing in research and focusing it on improving the competitiveness of the Czech economy is demonstrated by well-prepared agencies (Technology Agency of the Czech Republic, CzechInvest) that have the task of implementing support. Specifically, the Czech Republic has a strong position on the global anti-virus software market. The country's engineering potential is able to absorb advanced computer and system security solutions. The Czech Republic's low unemployment rate in the European and global context indicate a good level of flexibility within the workforce, whose level of qualifications is evidenced by the share of specialists with tertiary education. The poverty and social exclusion rate in the Czech Republic is currently one of the lowest among developed countries. This provides a relatively good foundation for maintaining social stability in the conditions of future technological and societal changes. The Czech Republic also has newly built infrastructure for basic and applied research, especially in the area of additive manufacturing, and a high-quality research base at the Academy of Sciences of the Czech Republic and university faculties in the area of sensor technology and big-data analytics. Top-level research in the areas of cybernetics, robotics and artificial intelligence is carried out especially at certain technical universities. In industry, we find an expansive production base for sensors and measuring systems.

We must perceive the fourth industrial revolution not as a threat, but as an opportunity. The entrepreneurial spirit and agility are coming

to the fore to a far greater extent than in the past, and this gives primarily small and medium-sized enterprises a chance. This new revolution will undoubtedly have an impact on employment, replacing boring and physically exhausting work, but it will require new skills and new ways of thinking. None of this can happen without dynamic consideration at the government level, whether that involves the drafting of legislation, education reform, concentration of human and financial capital at strategic junctions of the process and corresponding retraining of the workforce. ■

Jiří Krechl
Director R&D
CzechInvest

Interconnection between R&D and corporate sectors is growing

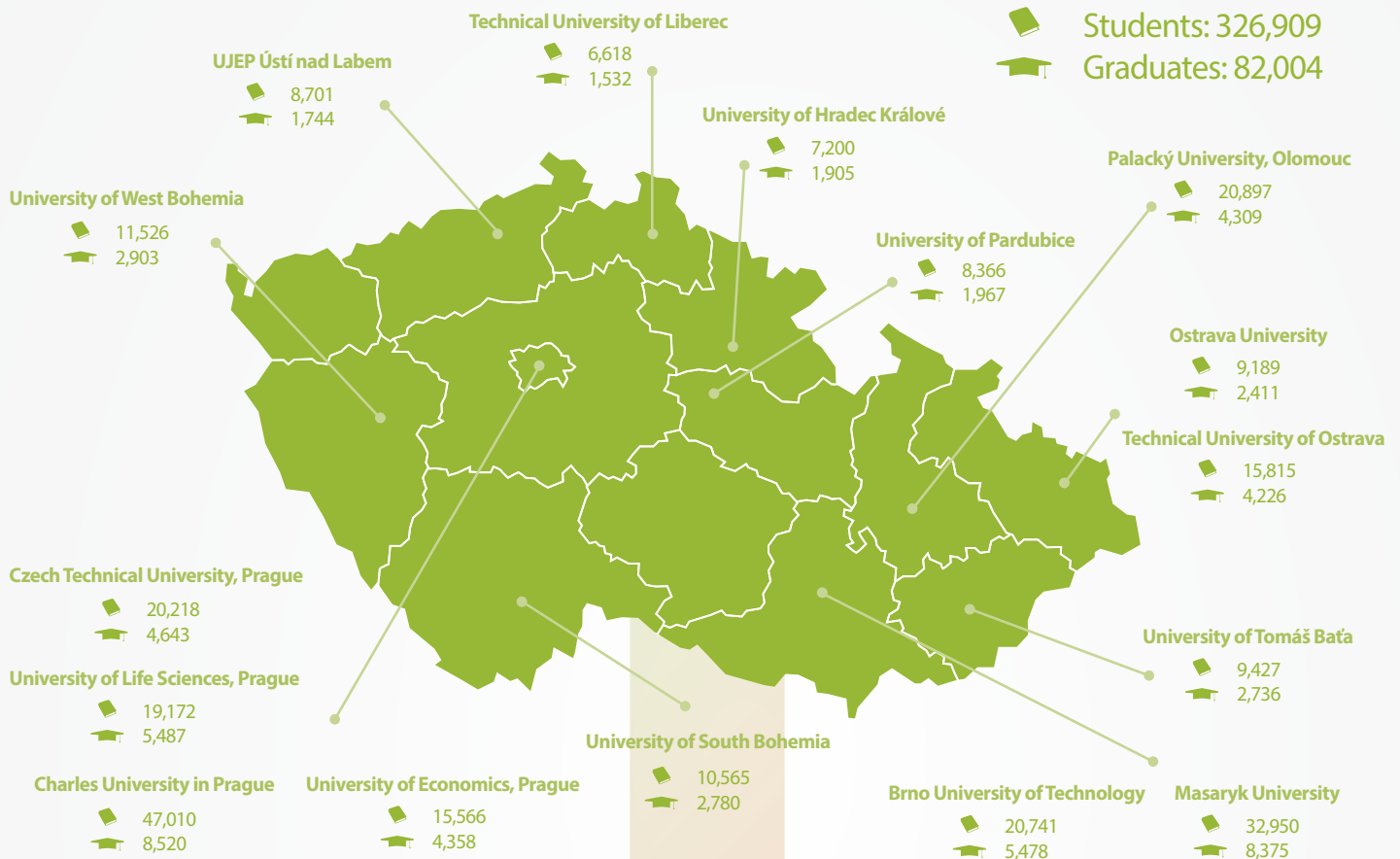
In the area of cooperation between firms and universities and research institutes, the Czech Republic ranks among the countries with growing interconnection between the research and corporate sectors. The Association for Foreign Investment plays an active role in promoting the results achieved by the research and application spheres.

The Cooperation of the Year competition recognises projects involving cooperation between both spheres and, through examples of successful collaboration, strives to motivate the research and application spheres to work more closely together. This unique project maps trends in the field of innovation and subsequent commercialisation of science and research, and promotes the results achieved by Czech scientists and researchers at home and abroad. Recent results of the competition available at www.afi.cz ■

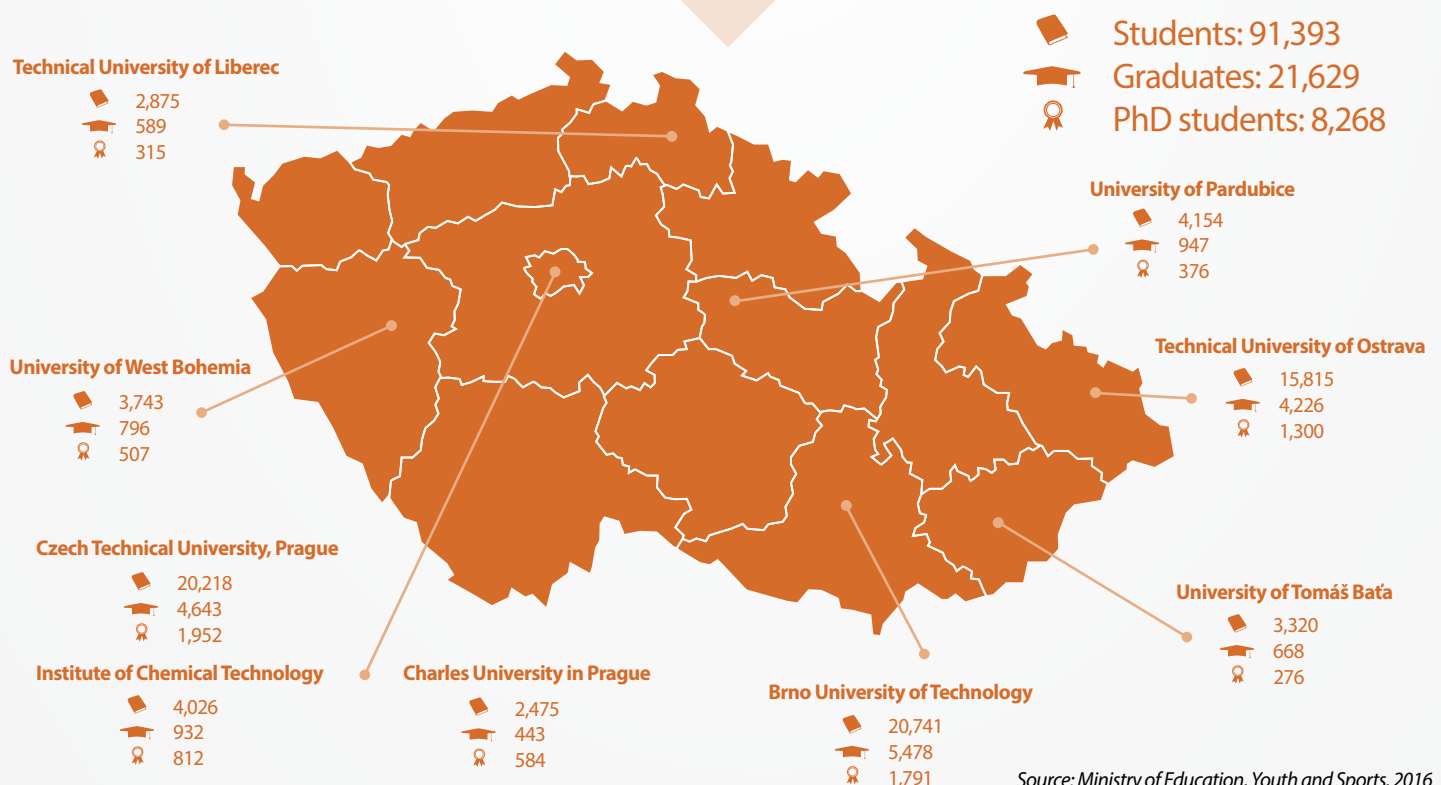
Sebastián Poche
Project Manager, R&D and Innovation
Association for Foreign Investment

University education in the Czech Republic

Main universities, 2015/2016



Technical education at selected universities, 2015/2016



Pilsen:

a region where investors and beer succeed

Pilsen (Plzeň in Czech) ranks among the most successful regions in the Czech Republic. Other than the fact that it has the lowest unemployment rate and highest income level outside of Prague, the region also has a very low crime rate and high-quality health-care. The Pilsen region's quality was recognised by the Datank agency, which in 2014 named it the Best Place to Live in the Czech Republic.



Basic data

Area: 7,561 km²

Population: 576,616 (2015)

GDP: EUR 8.166 billion (2014)

Average gross monthly wage: EUR 946

(according to CZ-NUTS, full time equivalent, year 2015)

Unemployment: 4% (as at 30 April 2016)

Source: Czech Statistical Office

The region boasts a rich industrial tradition, particularly in the field of mechanical engineering. The most advanced sectors of the regional economy include power generation and transport systems. Other important sectors include vehicle-component manufacturing, mechanical engineering, electrical engineering, electronics, plastics and the food industry, especially brewing, winemaking and distilling. The Czech Republic's first industrial zone, the Borská pole Municipal Industrial Park, was established in Pilsen in 1992.

Pilsen for investors

The Pilsen region is very attractive for investors, which is evidenced by its first-place finish in the Eastern European Regions – FDI Strategy category of the European Cities and Regions of the Future 2014/15 survey conducted by the British magazine fDi Intelligence. The largest number of foreign investors in the region comprise German and Japanese companies. Doosan, a major Korean manufacturer of steam turbines, entered the company Škoda Power in 2009. Since 2012 the company has operated under the name Doosan Škoda Power and in 2015 it became the fourth-biggest firm

in the Pilsen region, with turnover of EUR 370 million. The major German firms operating in the region include MD Elektronik, a manufacturer of cable assemblies. With turnover of EUR 178 million and more than 2,000 employees, the company is one of the leading employers in the manufacturing industry in the region. The region's capital, the city of Pilsen, is famous especially for beer production, which began here in 1842. The local company Plzeňský Prazdroj, is a leading European brewer. However, beer is not the only alcoholic beverage produced in the region. The company Bohemia Sekt ranks among the most important producers of sparkling wines in Central and Eastern Europe and annually sales 24 million bottles of bubbly. STOCK Pilsen-Božkov, a maker of fernet and rum, completes the trio of successful beverage producers in the Pilsen region.

The Pilsen region is strongly focused on the industry of the future and thus supports investments in high-tech services and research and development. A major advantage in this regard is the region's well-developed education system, which includes the University of West Bohemia and the Faculty of Medicine of Charles University.

The University of West Bohemia operates four research centres. The New Technologies Research Centre is focused on development of new, special materials and measuring of their properties, as well as laser technologies in the area of materials engineering. In its modern laboratories and testing facilities, the Regional Technology Institute carries out research focused primarily on modern vehicle design including drive systems. The Regional Innovation Centre for Electrical Engineering took part in the development of the Škoda ForCity tram and the Škoda H12 hybrid bus, and also developed the REMCS modular control system, which meets all requirements for safety applications in transport and power generation. The New Technologies for the Information Society centre specialises in cybernetics and information

technologies. Another important research facility in the region is the Biomedical Centre of the Faculty of Medicine, which is focused exclusively on research and development in the area of organ replacement and regeneration.

The sporting life in Pilsen

The Pilsen region has become a hotbed of sports in recent years, with local athletic clubs and individuals collecting one success after another, which greatly contributes to the prestige and good name of the region not only in the Czech Republic, but in Europe as a whole. Credit for this is due mainly to the footballers of FC Viktorie Pilsen, who have already won four championships. In European competitions, Viktorie has gone head to head with clubs such as FC Barcelona, AC Milán, FC Bayern Mníchov and Manchester City FC. Pilsen football has also given the world such names as Pavel Nedvěd, winner of the Ballon d'Or, and world-famous goalie Petr Čech. Hockey is also prominent in the region.

The Pilsen has myriad opportunities for recreational sport. Ski centres are available for winter-sports enthusiasts in the Šumava Mountains. In summer, the region offers a number of attractive places for walking, cycling and canoeing, while lovers of flora and fauna can watch wild animals and study endangered plant species on trails in the Šumava National Park. There are also several golf courses in the region.

Pilsen – City of Culture

In 2015, Pilsen got the opportunity to show that it is not only a city of beer and engineering. The European Union bestowed upon the city the prestigious title of European Capital of Culture. With the help of its native-born artists, such as Jiří Trnka, Gottfried Lindauer and Ladislav Sutnar, Pilsen attracted a record number of nearly one million visitors in 2015. ■

Martina Malíková
Pilsen Regional Office, CzechInvest

Regions of the Czech Republic

Karlovy Vary

- + International airport
- + Good transport connection with Germany
- + Engineering industry tradition

Reason to remember the region

The richest occurrence of mineral and thermal springs in the Czech Republic is in the so-called "spa triangle" between the cities of Karlovy Vary, Františkovy Lázně and Mariánské Lázně.

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Pilsen

- + Tradition of machine manufacturing
- + Good transport connections to Germany and Prague
- + University city

Reason to remember the region

Pilsen is known as the birthplace of the world's first Pilsner-style beer.

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Ústí nad Labem

- + Advantageous location between Prague and Germany
- + Dense, high-capacity transport network
- + Large number of industrial zones

Reason to remember the region

The České Švýcarsko national park is guarded by Pravčická brána, the largest natural stone arch in Europe.

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South Bohemia

- + Strategic location - proximity to markets in Germany and Austria
- + Stable economic structure
- + Good infrastructure for research in biological disciplines

Reason to remember the region

Český Krumlov (UNESCO World Heritage Site) is the most visited tourist destination in the country after Prague.

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Prague region

- + Highest number of university graduates
- + Highest disposable income per citizen
- + Most popular for FDI

Reason to remember the region

According to Mercer's annual Quality of Living survey published in February 2016, Prague is the highest ranking city in Central and Eastern Europe.

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Liberec

- + Strategic location near Germany and Poland
- + Tradition of engineering
- + Technical University of Liberec - Institute for Nanomaterials, Advanced Technology and Innovation

Reason to remember the region

Jewellery of Czech granite, a unique gemstone of small size and fire-red to blood-red in colour, is made here.

Contact

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Central Bohemia

- + Favorable geographical location in the centre of the country, proximity to Prague
- + Well-developed highway and railway networks
- + Diversified economy with potential for creation of skilled jobs

Reason to remember the region

The most beautiful Czech castles – Křivoklát and Karlštejn – are located in this region. The world-famous Cathedral of St. Barbara (UNESCO World Heritage Site) is in Kutná hora.

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Pardubice

- + Skilled workforce, scientific facilities and university
- + Continuing industrial tradition (chemical industry, mechanical and electrical engineering)
- + International airport; a main railway line traverses the region

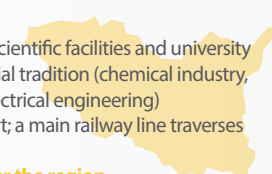
Reason to remember the region

The most prestigious horserace in Central Europe, the Grand Pardubice, has been held here annually for the past 125 years.

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Hradec Králové

- + Stable economic structure (manufacturing of motor vehicles, electrical equipment and textiles, agriculture and services)
- + Significant potential for tourism (Giant Mountains)
- + High quality of life

Reason to remember the region

PETROF, the biggest manufacturer of pianos and pianinos in Europe, is based in this region. The company has been in operation for more than 150 years.

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Vysočina

- + Advantageous location with good transport infrastructure
- + Strong background in the machinery industry
- + High-quality environment with the country's lowest crime rate

Reason to remember the region

A trio of UNESCO World Heritage Sites are located in this region – the historic centre of Telč, the Jewish Quarter and Basilica of St. Prokop in Třebíč, and the Pilgrimage Church of St. John of Nepomuk at Zelená hora.

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Moravia-Silesia

- + Major industrial center
- + International airport
- + Developing IT sector; R&D and innovation potential (IT4Innovations supercomputing centre)

Reason to remember the region

Colours of Ostrava, the biggest international music festival in the Czech Republic and one of the biggest music events in Central Europe, is held in the centre of Ostrava every year.

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South Moravia

- + Geographically favourable location on the border with Austria and Slovakia
- + Highly developed transport infrastructure – international airport
- + Industrial tradition – skilled workforce

Reason to remember the region

Villa Tugendhat (UNESCO World Heritage Site) in Brno is one of the pioneering prototypes of modern architecture in Europe.

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Zlín region

- + Significant innovation potential of local companies
- + Long business tradition
- + Rapidly increasing quality of life

Reason to remember the region

In the city of Zlín, entrepreneur Tomáš Baťa established his world-famous, eponymous footwear brand. Baťa also had a major impact on the city in terms of its architecture.

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Olomouc

- + Very good transport infrastructure
- + R&D centres of advanced technologies and biomedicine
- + Very high level of language skills

Reason to remember the region

This region is the source of traditional Olomoucké tvarůžky, ripe cheese made from non-fat pickled curd with a very unique, sharp flavour and unmistakable aroma.

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Quality of technical education

in the most industrialised country in Europe

The Czech Republic is the most industrialised country in Europe so it is not surprising that technical education is of great importance in here and that the Czech system of technical education has a very good reputation in the world. Thanks to the availability of graduates with degrees in technical fields at a highly competitive costs, the Czech Republic has become a popular location for many technology-oriented companies. The Czech Republic has a long tradition of technical education with a large number of students graduating every year in technical fields. To reinforce this tradition, 2015 was declared to be the Year of Technical Education. The Ministry of Industry and Trade supported many events, technology conferences, forums, exhibitions and school activities to attract the next generation to technical education and professions.

Education system

Graduates of Czech technical schools not only possess very good technical skills, but many of them also have some work experience and some also speak fluent English despite

the fact that learning languages is not prioritised at technical schools. Together with the Czech Republic's strategic location in the heart of Europe, this makes the country a very attractive investment and outsourcing destination. Lots of world-leading companies searching for highly educated, motivated, precise and cost-effective workers use local talent to support their business.

The battle for tech talent

Graduates of technical programmes and experienced tech professionals have always been a much sought-after commodity on the labour market. With the decreasing unemployment rate and the growing number of technical positions offered in the Czech Republic, demand for qualified candidates with a technical or engineering background continues to rise. Employers thus face a challenge to find the right people. To hire the best people in today's economy, companies should be proactive and initiate cooperation with high schools and universities in order to cultivate the talent they need. It is important to offer competitive conditions, use the right search tools, have the right contacts and

The Czech Republic offers skilled and educated tech professionals as well as fresh graduates in the following fields and sectors:

- Manufacturing
- IT
- Engineering
- Logistics
- Construction

know the environment or cooperate with a competent recruitment partner. To stay competitive and win the talent battle, most companies offer various employee benefits and compensation packages. The standard benefits package usually includes sick days, a 13th salary and other financial bonuses, meal vouchers and trainings. It is not uncommon nowadays for many employers to also offer education funding, a transport allowance, special medical care, insurance or a retirement plan as well as gym memberships or wellness programmes. With the growing importance of work-life balance, many job applicants highly appreciate non-financial compensation such as the possibility of flexible and alternative work arrangements. ■

Higher professional schools do not have the status of universities but they provide a three-year technical education after completion of secondary education. Technical universities usually provide programmes covering five and a half years and leading to the equivalent of a master's degree.

Secondary vocational schools are focused more on practical and work-based training in specialised fields than on general education. Students are prepared for technical jobs and the on-the-job training provided by these schools is one of the most important parts of this type of education. Students finish their three-year programmes with an apprenticeship exam.



Secondary technical schools and integrated secondary schools take students to a relatively high professional level. The education provided at these schools consists of theoretical classes and practical training in various fields, such as machinery and engineering. Studies conclude after four years with a final exam called maturita (leaving exam) that allows students to apply for admission to technical colleges and universities.

Hana Půlllová
General Manager
Randstad

Accounting principles of the Czech Republic

Legal framework

The Czech Generally Accepted Accounting Principles (Czech GAAP) are defined by the Act on Accounting relevant for all accounting units and by other rules and individual accounting standards which differ depending on the type of accounting unit (entrepreneurs, financial institutions, insurance companies, etc.). As a result, the same transactions may be treated differently from the accounting point of view by different companies, but the key principles remain the same.

The Czech GAAP are binding for all accounting units with the exception of companies that have issued debt or equity securities traded on regulated financial markets within the EU, which must use IFRS as adopted by the EU for preparation of their financial statements. However, the tax base is still calculated according to the Czech GAAP and therefore these companies must also be able to convert IFRS figures to the Czech GAAP.

The Czech GAAP define four categories of accounting units based on the total assets, annual turnover and number of employees: micro, small, medium-sized and large. Different categories follow specific rules with respect to accounting, financial statements, required disclosure, consolidation and compulsory audit.

Czech GAAP vs IFRS

Although the Czech GAAP are reasonably close to IFRS in many areas, there are differences which may have a significant impact on the understanding of financial statements. The key differences and specifics of the Czech GAAP include:

- Finance leases are generally accounted as operating leases while the total rental cost of the lessee is charged to the income statement and no liability is recognised on the balance sheet.

- Fixed assets are recognised in historical costs (in some cases, in replacement costs in the event that the assets are donated) and upward revaluation is generally not allowed with the exception of some mergers and demergers.
- Spare parts and works in progress are recognised as part of inventory and not as fixed assets.
- Evaluation using the LIFO method is prohibited as in the case of IFRS.
- Tax deductible provisions for future repair of fixed assets may be created, which is not allowed in IFRS. Otherwise, provisions follow similar rules as in IFRS.
- Only the Czech koruna can be used for keeping the accounting books; no other functional currency is allowed. The resulting exchange-rate differences realised during the accounting period are charged to the income statement. At the end of the year, assets and liabilities denominated in foreign currencies are recalculated using the exchange rate announced by the Czech National Bank and these unrealised exchange-rate gains or losses are also recognised in the income statement. Fixed exchange rates can be used for a specific period.
- Revenue recognition under the Czech GAAP is usually driven by contractual arrangements, but there is no specific guidance as in IFRS. Revenues (and expenses) are recognised on the date of delivery date of goods or services regardless of whether cash or its equivalent is received or paid. Percentage of completion and inclusion of unrealised profits for long-term contracts are not allowed.

Financial year

The financial year lasts 12 months and can start at the beginning of any month; however, most Czech companies still opt for the calendar year. In the case that a company was established

up to three months before the end of the year, the company may extend its financial year to 15 months in order to avoid compilation of financial statements. Similar rules apply for corporate income tax, which decreases the administrative burden for newly established companies.

Audit and financial statements

Large and medium-sized companies are always subject to audit while small companies are subject to audit only if one of the following criteria is exceeded in two consecutive accounting periods:

- Value of assets > CZK 40 million
- Net revenues > CZK 80 million
- Average number of employees > 50

Other accounting units must exceed two of these three criteria to qualify for compulsory audit.

The information in the financial statements must be reliable, comparable and understandable, and the financial statements must present a true and fair view of the company's financial position. Companies that are subject to compulsory audit must prepare their financial statements in the prescribed full format. Other companies use the shorter and simplified version.

The financial statements must be prepared:

- by the date of submission of the corporate income tax return (generally within three months after the end of the year or within six months if the tax return is prepared by a tax advisor).
- within six months after the end of the year for the purpose of the annual general meeting.
- at the latest, within 12 months after the end of the financial year. ■

*Soňa Bláhová
Head of the Accounting Department
ASB Accounting*

M&A insurance in the Czech investment environment

The Czech Republic is increasingly on the radar for private equity and real estate strategic investors who are taking advantage of the stable political and economic situation, skilled workforce, and many other characteristic features of this central European country.

With M&A activity growing from year to year in the market and creating more and more transaction work for corporate lawyers labouring over sale and purchase agreements (SPAs) as well due diligence work for professional consultants. The disclosure exercise conducted by the seller and the DD operation conducted by the buyer results in a suite of warranties given by the seller to address the risk of an unexpected issue emerging post closing.

A growing trend is to transfer this risk of a warranty breach to the insurance market. The warranty and indemnity (W&I) market has been in existence for a decade but has only become a staple deal tool in the last three years. In the London market, it is estimated that around 10% of M&A deals now have W&I attached. This product is increasingly being used in deals across CEE and in Czech deals in particular.

The demand for using W&I has risen due to a combination of factors. In particular, prices have decreased to a level where the insurance is seen as a very attractive option, the process has been streamlined with most London teams having former corporate lawyers underwriting the risk, and knowledge of the existence of such insurance has increased, with law firms pushing the option to their clients as a viable deal tool.

The purpose of W&I insurance is to wrap the transactional risk in a policy so as to eliminate, or minimise, the impact of the liability on the parties to a sale and purchase agreement. The scope of coverage is determined by the issues in a particular transaction; therefore, each policy is bespoke in order to address those issues and implement the necessary cover.

The policy fills the “warranty gap” in cases where sellers either:

- I. are not prepared to provide warranties (e.g. PE houses or family sellers)

- II. intend to cap their liability at £1/€1/\$1 (e.g. real estate transactions), or

- III. in some cases are unable to give warranties and indemnities (e.g. family sellers or SPVs)

The product tends to be particularly attractive in competitive auction processes where sellers are unwilling to provide warranties and indemnities but can still provide a package to prospective buyers enabling them to bring warranty claims against an insurer rather than the seller.

The starting point for the insurer is that the policy sits back to back with the SPA and indemnifies a party to a transaction (buyer, seller or interested party) for financial losses arising out of the sale and purchase agreement. This includes claims:

- I. for a breach of warranty (General, Fundamental, Tax)
- II. under the tax covenant, and
- III. under an indemnity in respect of a known issue.

Specific known issues such as tax or litigation may also be covered by the W&I market with a separate policy.

Exclusions to the W&I policy include secondary tax liabilities, transfer pricing, environmental exclusions and construction defects.

Increasingly, clients are turning to other London markets to cover risks that are not covered by the W&I market.

Policies can be held by either the buyer or the seller, but it is far more common for the buyer to hold the policy. The benefit of a buy-side policy is that in the event of a claim, the buyer will be reimbursed directly by the insurer, rather than the seller, for any covered financial loss under the contract, as a claim that would have been against the seller will now be against the insurer. This gives the buyer certainty that if any of those warranties they have relied upon are not correct or are even fraudulent, the policy will respond (assuming a risk has not been specifically excluded).

A seller-side policy would mean the buyer

would file a claim against the seller, who would then in turn file a claim against the policy. This does not give a “clean exit” for the seller, which is a main driver for this type of insurance.

From the seller’s perspective, W&I insurance can be used to limit liabilities and mitigate balance sheet exposure. This allows a seller to exit deals cleanly, free to use the proceeds of the sale without having to reserve funds for any future claims. From the buyer’s perspective, W&I insurance can be used to make a bid more attractive to a prospective seller. It can therefore help a buyer secure a greater number of deals.

The W&I market in London and across Europe has grown tremendously in the past few years. More and more insurers are joining the market, resulting in competition in both pricing and coverage positions. Markets are now having to look at more complex risks and jurisdictions in order to gain market share. As the product becomes more commonly used, claims data is starting to emerge from the market. AIG recently published their claims data noting a claim on 11% of policies written in EMEA. The most common breaches were around financial statements, tax, contracts, IP, and employee and litigation warranties. Interestingly, over 50% of claims arose in the first 12 months of a policy being written. Pricing for W&I policies ranges from 1% to 3% of the limit purchased with underwriters looking at the quality of DD, type of asset, jurisdiction and the transaction size to price the risk. Real estate deals are now being priced as low as 0.75%, whereas IP-heavy software companies would be priced at the higher end of this scale.

RENOMIA works in conjunction with Lockton Transactional Risks team in London to gain access to the London market. ■

Vojtěch Toman
International Department Account Manager
Renomia



At what level is protection of intellectual property in the Czech Republic?

According to the conclusions of a recent report (2014 Special 301 Report) issued by the Office of the United States Trade Representative, which monitors the protection of intellectual property rights in individual countries, the Czech Republic ranks among the nations where such rights are well protected. Protection of intellectual property rights is indisputably important for the Czech Republic, as it is a significant indicator of the country's level of development, as well as a motivational element for foreign investors. A high degree of protection of intellectual property rights is ensured in the Czech Republic by legislation which is regularly amended in connection with developments and needs in the area of strengthening the rights of intellectual-property owners. The Czech

Republic is a party to all major international agreements in the area of protecting intellectual property. It is also a member of and closely cooperates with the World Intellectual Property Organisation, the European Patent Organisation and the European Union Intellectual Property Office (previously known as the Office for Harmonisation in the Internal Market until 23 March 2016, when Regulation of the European Parliament and of the Council (EU) No. 2015/2424 of 16 December 2016 came into force). Institutional protection of intellectual property rights is ensured in the Czech Republic primarily by the Industrial Property Office, which is the country's fully functioning patent and trademark authority. Other authorities and organisations involved in the protection

of intellectual property rights include the Czech Trade Inspection Authority, the Police of the Czech Republic, the courts and the state prosecutor's office, as well as the Customs Administration of the Czech Republic, which is actively engaged in the fight against counterfeiting and piracy. The customs authorities are authorised to take action against goods that are suspected of being in violation of intellectual property rights and to enable protection of such rights for the holders thereof. Thus, in answer to the initial question, it can be confidently stated that the level of protection of intellectual property rights is very high in the Czech Republic. ■

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What is the attitude of Czech employees toward Korean employers?

Over the past decade, Korean companies have collectively become one of the leading employers in the Czech Republic. In the early years of cooperation, it was necessary to mutually understand and clarify cultural conditions, especially in the system of company management and in setting up processes. For Korean companies and other Asian employers, there is typically strict hierarchisation in management structures, long-term relationships with employees and emphasis on loyalty. For many employees accustomed to more active involvement in the company's management and a more dynamic career path,

this model of cooperation was difficult to accept, especially in the initial years of employment. Today, however, employees at all levels in the Czech Republic especially value the opportunity to work with state-of-the-art technologies and to benefit from sophisticated training systems and career growth. Korean employers welcome the outstanding technical education of the Czech employees, their approach to ongoing improvement and their willingness to learn new processes. A very important aspect for both parties is the mutual sharing of experience and temporary assignment of workers to parent factories, which gives employees unique

experience and the possibility to gain detailed insight into the given company's processes and culture. With Korean companies having been active on the Czech market for a number of years, the cultures have gradually grown closer and those companies have become sought-after and respected employers. Korean investors are seen as stable partners that offer long-term employment and room for professional and personal growth. ■

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When and how should an investor start to "communicate"?

There is no doubt today that every company needs a way to communicate. For foreign investors entering a new market where they do not currently have any ties, it can be difficult to decide when to begin with active communication, who to entrust it to and how much to invest in it. Usually, negotiations are first conducted with local authorities, institutions and potential investors over the course of long months via attorneys and other advisors. Investors often do not even think about PR work at this time, nor do they have a budget for it. Only when everything regarding the investment is more or less clear does an investor start to look for someone who can secure the new company's (positive) image in the media and among the relevant target groups.

It is advisable to engage a PR agency far in advance, in the phase when the investment is being decided. It is better to forestall potential "communication noise" rather than to deal with it later. If the agency has enough time, it can, for example, identify sensitive issues in advance and recommend steps that the investor should take with respect to those issues. A typical example of this is the situation when a new company enters a closed local community that is not completely familiar with the investor's project, which can give rise to rumours and false impressions. It is the job of PR consultants to recommend how to communicate with the local population, as well as with the local authorities and interest groups, and how to present the company in relation to its competition.

Today PR work involves far more than merely communicating with the media and ensuring the greatest possible number of positive mentions in the media. The action radius of a quality PR agency is much broader than that and includes all stakeholders and a considerable portion of public-affairs activities. An experienced PR agency is able to ensure that all interested parties – including public institutions, local authorities and, for example, political parties – receive relevant information that evokes a feeling of common interest. The sooner such communication begins, the better. Such an approach is one of the prerequisites of every investor's economic success. ■

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How can investors hedge against currency risks in the Czech Republic?

The Czech Republic is a small and very open economy where growth is primarily driven by foreign trade. As the Czech Republic is not part of the eurozone, foreign investors are exposed to currency risks. However, not all such risks are necessarily material for each company. It is up to management to analyse the impact of currency risks on a company's cash flows, reflect the results in the risk management strategy and, if relevant, hedge against them.

There are several ways to hedge against currency risk. The first option is the natural hedge, which means matching cash flows directly in foreign currency. Large real estate projects in the Czech Republic are usually financed in euros

and naturally involve currency risk. This risk could be hedged by linking expected rental income to the euro and making loan payments in the same currency. In the automotive industry, a significant part of the supply chain is denominated in euros to minimise currency risk and the cost of currency conversions. The second option is the use of financial instruments. This type of hedging is typical for companies that are able to predict their cash flows. There is a developed FX derivatives market in the Czech Republic which allows efficient hedging against most of the major currencies including complex structures involving exotic derivatives.

The last option is not to hedge against currency risk. Typical examples are companies where several currency risks are present. These companies most likely hedge against only the main currency risks and ignore the remaining ones. However, with the expected appreciation of the Czech koruna following the termination of the Czech National Bank's currency intervention regime, which is expected in 2017, FX hedging will start to be at the top of financial managers' agendas. ■

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Location strategy: electronics manufacturing hotspots in the Czech Republic

Interview with Jaroslav Kaizr, Business Director, CTP



Why should electronics manufacturers choose the Czech Republic over other parts of the world or other CEE countries?

The Czech Republic is a modern electronics hub based on many years of tradition, a solid educational system and strategic location. These days, the electrical engineering and electronics sector employs nearly 180,000 people and accounts for more than 14% of Czech manufacturing output.

What are the location hotspots in the Czech Republic and centres of excellence?

The CTPark Network is home to many investors from a number of fields, ranging from electron microscopy and robotics to consumer electronics. Approximately 15% of CTP's client portfolio comes from the electronics sector. Within our Czech portfolio, a number of locations have emerged as preferred destinations for electronics investors, such as CTPark Brno, which is home to electron microscope manufacturer FEI and hardware producer Acer, and is a key R&D location for Honeywell. CTPark Plzeň in the west of the country is an attractive location for both manufacturing of electronic goods (China's Hisense recently took over 10,000 m² space in CTPark Plzeň) and as a logistics hub. Long-term CTP client TechData operates a 50,000 m² distribution centre in CTPark Bor, just a few kilometres from the Czech-German border.

Lease vs. freehold, which is better for me?

Electronics manufacturing often involves complex processes and more often than not requires a complex space solution. Fortunately, CTP has the know-how to smartly accommodate such requirements, which vary from super-stable anti-static flooring for precision engineering to movable partition walls to cater for seasonal overflows and production peaks. CTP remains the owner and manager of the buildings we develop, which allows our clients to concentrate on their core business.

What about the labour pool, specifically for the electronics industry?

Labour costs in the Czech private sector stand at 38% of the EU-28 average. Nevertheless, the main benefit of the Czech Republic consists in the excellent cost-quality ratio of the country's highly educated and skilled workforce. This is especially relevant in comparison to other CEE countries. Over the past five years the average annual wage has risen by roughly 13%, though from a much lower base compared to Western Europe. According to Eurostat's data from 2014, the Czech Republic's labour costs remain very competitive in the EU. The Czech Republic can offer average labour-cost savings of 40% to 60% in comparison with costs in Western Europe or the United States. For instance, in 2014 the Czech hourly wage in the manufacturing sector was EUR 9.40 as compared to EUR 31.40

in Germany, EUR 34.60 in France and EUR 22.30 in the United Kingdom.

How much will an A-Class facility cost me?

The price per square metre for a production/warehouse facility in the Czech Republic compares favourably with that in Western Europe. The number of ecologically friendly buildings is also on the rise; the number of BREEAM-certified assets in the Czech Republic stands upward of 60, which is more than in other CEE markets such as Romania, Hungary and Slovakia. Investors are increasingly looking for ways in which to lower their ecological impact; since 2011, all CTP buildings are built to BREEAM standards.

Industrial facility: primary locations	Industrial facility: secondary location
EUR 4.25/m ²	EUR 3.75/m ²

How long will it take to build a facility?

CTP can construct and hand over a building typically within nine months, which includes all preparation, tendering and permitting. For bespoke buildings, what we call our CTFit solution, it might take a little longer depending on the scope. However we have all designers and engineers in-house, which dramatically speeds up the process. For our standing portfolio, move-in time is much shorter and will depend entirely on the required interior fit-out and placement of machinery, which we can also assist with. ■

The Czech Republic – beer superpower



If there is anything that Czechs truly love, it's beer and ice hockey, ideally in combination, either in a comfortable armchair in one's living room or with friends at a favourite pub. In short beer is an essential part of Czech culture, an assertion that is backed up by the numbers.

Unassailable supremacy

For the past several years, the Czech Republic has held a big lead in beer drinking, with annual per-capita consumption totalling 143 litres, thus regularly surpassing the second-place Germans with 110 litres and third-place Austrians with 108 litres, according to data released from Euromonitor International in 2014.

Home of Pilsner beer

The world's first golden beer brewed using the aging method was produced in the Czech city of Plzeň in 1842. With its rich colour and bold, delicious flavour, this high-quality bottom-fermented lager subsequently captivated not only other Czech cities, but also the whole world. Therefore, in 1859 the local Měšťanský pivovar (Municipal Brewery) registered the first trademark for "Pilsner Bier", which is still the dominant type of beer in the Czech Republic and around the world to this day. The success of Czech beer is due to the local hops and malt, which over time became significant export commodities. In 2008, beers made in the Czech Republic were granted the "Czech Beer" geographic designation, which introduced clear and strict rules pertaining to the location, methods and ingredients used in brewing Czech beer.

Czechs drink only Czech beer

Czech beer lovers are very conservative and thus mostly hang on to the established Czech brands for which this country in the middle of Europe is known around the world. New brands find their way into the hearts of Czech beer drinkers only with great difficulty. This is apparent in the insularity of the Czech beer market, where imports account for only 1% of consumption. Czech breweries mainly produce draft beers and the aforementioned traditional lagers.

Highest annual beer consumption per capita

1. Czech Republic:		143 litres
2. Germany:		110 litres
3. Austria:		108 litres
4. Estonia:		104 litres
5. Poland:		100 litres
6. Ireland:		93 litres
7. Romania:		90 litres
8. Lithuania:		89 litres
9. Croatia:		82 litres
10. Belgium:		81 litres

Source: Euromonitor International, 2014

Special types of beers comprise only a small fraction of production and thus also comprise the province of small breweries and brewpubs, which are now on the rise in the country. Other than "classic" beer, the product lines of these breweries include non-alcoholic and light beers as well as flavoured beers. There are currently 353 breweries operating in the Czech Republic, of which 45 are industrial-scale producers and 308 are minibreweries.

Czech beer is highly valued beyond the country's borders. This is evidenced by the fact that a full range of breweries around the world use recipes according to Czech brewmasters and Czech hops. Czechs themselves often refer to their local beer as "liquid bread" and praise its healing effects.

Always low prices

The famous Czech writer Jaroslav Hašek once said that a government that raises the price of beer would fall within a year. In 1984

the communist government of the former Czechoslovakia nearly doubled the price of beer. Though this measure did not last one year, the communist regime fell five years later (which, of course, was not due to the price of beer). Since then, beer prices in the Czech Republic have remained relatively low. Beer is still cheaper than bottled water in a number of restaurants. Because of the low profit margin, Czech breweries must focus on exports, from which they earn income for further investment.

Early history

As far back as the Middle Ages, the Czech Republic was destined to become a brewing superpower. Hops, the basic ingredient in beer, had been grown here since the year 869. That this ingredient was highly valued is apparent in the fact that King Wenceslas proclaimed that the death penalty would be imposed on anyone who was caught exporting hops vines from which new plants could be grown. The main area for cultivating hops was the Žatec district, which features clayish red soil that maintains the proper moisture level and hills that protect hop fields from strong wind and rain. The oldest Czech tradition of brewing is that of the Břevnov Monastery, which was established in 933. During its consecration, the bishop allegedly had to prohibit the monks from making beer because they focused more on preparing and drinking it than on their flock. The oldest written record of beer production is a foundation charter issued by King Vratislav II in 1088 for the cathedral at Vyšehrad, in which the king grants a tithe of hops to the canons.

Pilsner Urquell and Budweiser – the most famous Czech beer brands

Local innkeepers opened the new Měšťanský pivovar in Plzeň in 1842. And it was here that the aforementioned Pilsner beer was born. Its creator was the brewmaster Josef Groll, who invented the new bottom-fermentation method. However, other Plzeň breweries benefited from the "Pilsner Bier" trademark and, furthermore, the general customs authority in London created the designation "Pilsner Beer" referring to a particular type of beer regardless of its place of origin. Therefore, the Plzeňský Prazdroj – Pilsner Urquell trademark was registered in 1898. Today Plzeňský Prazdroj is the leading brewery in Central and Eastern Europe. The company exhibits at the biggest expositions and is the biggest Czech beer exporter with its products sold in nearly fifty countries around the world.

A similarly famous Czech brewer is Budějovický Budvar, whose predecessor was Český akciový pivovar in České Budějovice. This purely Czech brewery was established in 1895 and built on the local historical tradition of brewing beer, which dates back to the thirteenth century. The high quality and outstanding flavour of the

local beer soon earned the brewery global renown. The company registered the "Český budějovický granát", "Budweiser bier" and "Budbräu" trademarks in the 1920s and, in 1930, the "Budvar" trademark, which it still uses today. The company later became involved in disputes over the use of certain trademarks with the American company Anheuser-Busch. As a result of these disputes, Budvar beer is sold under the name "Czechvar" in North America. Conversely, the Anheuser-Busch InBev concern is not allowed to use its key "Budweiser" brand in nearly seventy countries.

Other Czech breweries

Excellent local breweries can be found in nearly every region of the Czech Republic. Furthermore, a number of new microbreweries and brewpubs have recently been established. The only microbrewery to have survived the communist regime is U Fleků in Prague, which is also the oldest Czech brewery with a continuous history, dating back to 1499. Originally established in the sixteenth century and revived in 1991, the family-owned Bernard brewery in Humpolec was the first private brewery opened after 1989. The Belgian

firm Duvel Moortgat acquired a 50% stake in the Bernard brewery in 2000. However, Bernard continues to produce its traditional pale, semi-dark and special dark beers, which are not pasteurised. Another brand worth trying is Lobkowicz, which is one of the oldest Czech beers, as the brewery was established in 1466 and belongs to the noble Lobkowicz family. Apart from those previously mentioned, the Czech Republic is home to a large number of outstanding beer brands. The historical development of Czech brewing, the quality of Czech ingredients, the diligence and expertise of Czech brewmasters and perhaps even the lack of investment in modernisation during the communist era have ensured that the traditional processes and recipes have been preserved. Czech beer still retains its original flavour, which is best experienced in the spring or summer at a restaurant with a garden and view, ideally in combination with a light snack or traditional Czech meal such as pork with sauerkraut and dumplings or sirloin in cream sauce. ■

Iva Fialová
Czech Focus



Poultry paté, apricots and hazelnuts - try it with fantastic Czech beer!

Taste a Czech treasure

Beer is the national beverage of the Czech Republic, and it's no wonder that it goes perfectly with traditional Czech cuisine. Brewed in various forms throughout the country since the Middle Ages, beer has long since become a part of everyday life in the Czech Republic. A revolutionary act was that carried out by an association of Plzeň residents who built the Měšťanský pivovar (Town Brewery) in that city in 1842. Brewing technology also underwent a change during that period, as beer began to be brewed using Bavarian-type bottom fermentation instead of top fermentation. Therefore, the people of Plzeň invited a Bavarian brewmaster to the new brewery and Pilsner Urquell soon became the paragon of Czech beer, the ideal of colour, taste and aroma. The lager

from Plzeň even has proven medicinal effects and helps to digest hearty Czech food. Czech cuisine is the legacy of our ancestors. It contains primarily meat, dumplings, potatoes, cabbage and mushrooms. You can try it in any pub, but the real experience lies in the quality of fine dining. At the Mlýnec restaurant, Chef Marek Šáda prepares Czech dishes using modern methods with respect to careful selection of ingredients from local suppliers and healthy living. The atmosphere of the Medieval building above the Vltava is enchanting. From the terrace, you can enjoy the view of the 600-year-old Charles Bridge with Prague Castle in the background. With its mildly bitter flavour, draft Pilsner Urquell perfectly accompanies fresh, lightly smoked

veal tartar with homemade mayonnaise. Veal is also the foundation of other Czech dishes, albeit with Viennese roots. Marek Šáda crafts veal schnitzel as veal filet mignon in triple breading and serves it with potatoes, pickled carrots and chive mayonnaise. The essence of Czech cuisine is found in slowly roasted duck with cabbage and potato dumplings. In a dish for the new millennium, imagine confit of duck leg cooked over seven hours with foam of red cabbage and baked potato gnocchi on butter. A pale beer enhances every bite and, at the same time, leaves you room for dessert.

Find more on:

www.mlynec.cz
Restaurace Mlýnec
Novotného lávka 9, Prague 1
Telephone: +420 277 000 777



Michael Mullen
PwC Legal
Partner

"It is probably the dynamism and changing nature of business here that I enjoy the most."

What do you like most about living in the Czech Republic?

I've lived here now for half my life (25 years), so what I have liked about the Czech Republic has changed over the years. Initially it was the vibrant social and business environment (post-revolution social changes, privatizations, fast developing business) and the beer of course. This has changed into an appreciation of good wine and watching and participating in the development of local expertise and capital, and seeing the effects of pre-European and

post-European integration. I also appreciate that the population of business leaders is small and it is relatively easy to orient oneself among them. It is probably the dynamism and changing nature of business here that I enjoy the most. On a personal level, I also appreciate that Prague offers a combination of interesting culture and business, with the ability to escape the city easily into beautiful countryside.

What was the most surprising for you?

Not much surprises me anymore.

What is your favourite Czech food?

Duck with dumplings and red cabbage!

What would you recommend to visit in the Czech Republic?

Terezín, a local pub in the middle of nowhere, the Šumava Mountains, the Czech Technical

Museum, a concert at the Týn Theatre in Prague, Prague Castle on an early Monday morning, Prague Zoo, the Prague Metro.

About my company

PriceWaterhouseCoopers Legal is a leading Czech law firm with offices in Prague, Brno and Ostrava. Globally, we cover 87 countries and employ more than 2,500 lawyers. In the Czech Republic, we cover all services required of a top local law firm, with the professionalism and integrity required of an international organisation such as PwC. We also offer our services at a fair "local" price, with a significant discount from what you would expect from a global law firm focusing only on legal services. We speak multiple languages and are experienced with multinational projects and the sometimes complicated international legal issues related to such projects. ■



Hee Seok Kim
CEO
Le Mars Group

"I really enjoy seeking out attractive opportunities to develop businesses with new Korean investors coming to the Czech Republic."

What do you like most about living in the Czech Republic?

There are many potential Korean investors in Czech Republic. So, I really enjoy seeking out attractive opportunities to develop businesses with them. Also, I can enjoy the fresh air because the Beskydy Mountains are close to where I live.

What was the most surprising for you?

When I arrived in the Czech Republic, I was

very surprised by the taste of beer, especially Plzeňský Prazdroj. In Korea, I have never taste as delicious as this.

What is your favourite Czech food?

What I like is guláš with dumplings and beer. I have also tried other Czech foods, such as svíčková, vepřo knedlo zelo, etc., but guláš is number one for me.

What would you recommend to visit in the Czech Republic?

When Korean friends ask me this question, I always tell them Old Town in Prague, as there are many historical architectural elements, like the Powder Tower, the Astronomical Clock and so on.

About my company

Since its establishment as a professional

corporation in 2006, Le Mars Group has been providing comprehensive industrial solutions for our clients worldwide. We have three main areas of business. The first one is construction. We are able to help our customers with everything then need from A to Z. We usually start with finding a proper location and continue with the design and permit processes. When these steps are completed, we arrange construction of the building with our partners. The second area of business is focused on complete LED solutions, which we provide through our professional team of specialists. We initially create a simulation and then manage the LED installation. The last point//area is provision of quality-control services. Le Mars Group began operating in the automotive industry at the end of 2013. We always try to do the best for our customers. ■



Radwan Seddiqi
Executive Director
Redtoo

"I love the Czech Republic."

What do you like most about living in the Czech Republic?

The Czech Republic is very versatile; it is great for skiing (my favourite is the highest mountain in the Krkonoše – Sněžka) and hiking as well as family trips to many cultural sights. Considering that it is quite tiny, there is really much to see and experience in the Czech Republic. It is interesting... just by writing this, I am reminded of how much I actually love this country. For instance, Šumava, with its beautiful woods and meadows and the River Berounka, watching it flow by while enjoying a family picnic on the banks.

What was the most surprising for you?

I was quite pleasantly surprised how laid back the people are. The next thing that probably surprises most visitors to the Czech Republic is the fact that beer is cheaper than soft drinks.

What is your favourite Czech food?

Pork with dumplings and sauerkraut ("Vepřo knedlo zelo").

What would you recommend to visit in the Czech Republic?

Every visitor to the Czech Republic should see the Astronomical Clock, Old Town Square and Charles Bridge and take a walk through the Golden Street at Prague Castle. Besides Prague, must-sees are definitely Karlštejn and the ossuary in Kutná Hora.

About my company

Starting in Switzerland more than 25 years ago, we have grown into one of the most successful global IT consulting and service companies with offices spanning several countries. We are both strategic advisors and full-service IT providers with comprehensive know-how under one roof. Our customers' core business benefits from our optimisation of their business processes and efficient implementation and operation of their technology investment. Our competence, reliability, precision, openness and loyalty form the very core of redtoo and have allowed us to expand very quickly in the Czech Republic, where we started with a small team at end of 2012. Today, our seventy highly qualified specialists provide expertise and services mainly in highly regulated and complex technology environments of large enterprises from our two offices in Prague and Brno. ■

The Association for Foreign Investment

is a non-governmental, non-profit organisation established by a group of leading global and regional firms with key competences in supporting new and existing investors in all areas of their activities and actively promoting the Czech Republic as an investment destination of choice. The AFI has been actively assisting investors since 1996 and cooperates closely with the Czech government, CzechInvest Investment and Business Development Agency and all relevant public authorities.

How we help investors

Expert support for investors and exporters in all key phases of investment implementation:

- Site selection advisory
- Comprehensive services related to getting established on the market
- Necessary information from all sectors of the economy („doing business“, analyses)
- Organisation of investors' visits to Czech Republic
- Personal consultation
- Mediation of contacts with business partners and other relevant entities on the market
- Facilitation of contact with the public sector, the academic sphere and science and research organisations
- Expert support in the area of visas and work permits
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