



Financial Market Report

Czech Republic

Country Profile: Czech Republic

Raiffeisen Research. As in April 2009.

Currency: Czech crown

Gross Domestic Product and Budget	2007	2008 (est.)	2009 (forecast)
Real GDP growth, % p.a.	6.0	3.1	(2.6)
Nominal GDP, €bn	127.3	148.3	136.3
Per capita GDP, PPP basis, €	20,000	20,200	19,800
Growth in industrial output, % p.a.	9.0	0.4	(12.0)
Consolidated budget deficit, % of GDP	0.6	1.5	5.1
Inflation and Employment			
Jobless rate, annual average, %	6.6	5.4	7.8
Average monthly gross wage, €	781	940	850
Consumer price inflation, annual average, % p.a.	2.8	6.3	1.2
Balance of Trade and Current Account			
Goods exports, €bn	89.1	99.8	115.8
Goods imports, €bn	84.9	95.9	113.9
Current account deficit, €bn	4.1	4.5	6.1
Current account deficit, % of GDP	3.2	3.1	4.5
Foreign debt, % of GDP	38.2	47.0	43.0
Rates of Exchange and Interest Rates			
Local currency/US\$ (average)	20.2	17.0	19.4
Local currency/€ (average)	27.7	25.0	27.5
3-month money market rate (PRIBOR), average, %	3.0	3.9	2.0

Country Ratings

S&P	A
Moody's	A1

The Czech Financial Market

1. The Economic and Political Situation in the Czech Republic	4
2. Company Law	5
3. Accounting	11
4. Taxes and Legislation	12
5. Privatization	16
6. Arbitration	18
7. Support and Subsidies	19
8. Risk Mitigation and Finance	22
9. Payment and Account Services at Raiffeisenbank a.s.	27
10. Raiffeisenbank a.s.	31
11. Your International Business Specialists at Raiffeisenbank a.s. and the Global Raiffeisen Network	32

Important:

Despite thorough research and the use of reliable sources, we cannot accept responsibility or liability for the completeness or accuracy of this brochure's contents. The purpose of this brochure is to give you initial, general information to help you develop business relationships in the Czech Republic. The content of this brochure does not constitute any form of advice or offer or invitation to make an offer.

Prepared in cooperation with AUSSENWIRTSCHAFT ÖSTERREICH (AWO) at WKÖ (the Austrian Federal Economic Chamber).

Sources:

Raiffeisen Zentralbank Österreich AG

WKO: AWO Czech Republic Country Report; AWO Special Reports: Setting up a Company and Taxes in the Czech Republic, Property and Receivables in the Czech Republic.

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1. The Economic and Political Situation in the Czech Republic

A European Success Story

Like Slovenia's, the Czech Republic's economy is one of Central and Eastern Europe's most mature. *Per capita* GDP (PPP basis) came to about €20,200 in 2008, so the Czech Republic had already reached roughly 80 per cent of the EU-27 average. In the past decade, the Czech economy has profited from an enormously strong inflow of foreign corporate investment. The factors that make the Czech Republic a particularly attractive location for foreign investors from Western Europe include its closeness to the European market, its industrial economic structure, high average standards of education and high labour productivity. Although it has risen sharply in recent years, the average wage is still well below that of Western Europe. The increase in purchasing power has also made the Czech Republic an attractive outlet for foreign companies.

The country's extremely successful integration into the European economy, with its division of labour, was accelerated further by EU accession in 2004. Among other things, it has been reflected by a high export ratio of nearly 70 per cent of GDP. Furthermore, since 2005, Czech exporters have generated an uninterrupted series of yearly trade surpluses. However, Czech industry is highly dependent on exports, and this involves risks that have now come dramatically to light in the global financial and economic crisis. As a result, there is likely to be a double-digit percentage fall in Czech industrial output in 2009, and the overall economic recession will probably be more-or-less as severe as in the eurozone, even if the Czech financial sector is one of the most stable anywhere in Europe.

If one tries to look beyond the present global recession, the Czech Republic will undoubtedly be one of the most competitive manufacturing bases for the European market, and it should be one of the main beneficiaries of economic recovery in Western Europe. In addition, the final opening up of the European labour market by 2011 at the latest will continue the convergence of average incomes, which should in turn lead to another increase in Czech household's purchasing power. Alongside Slovenia, the Czech Republic is one of the two new EU Member States whose average *per capita* GDP (PPP basis) will reach that of the EU-27, and even exceed it, by 2020.

2. Company Law

2.1. Legislative foundations

The key provisions of commercial and enterprise law are contained in the Czech commercial code. The Czech commercial code defines an enterprise as the totality of its material, human and intangible parts. An enterprise owns the things, rights and other assets that belong to the proprietor(s) or owner(s) and serve the enterprise's operations or, by their nature, should serve this purpose. Such an enterprise can be formed equally by Czechs or foreigners. Unless the law specifies otherwise, foreigners can operate on the territory of the Czech Republic under the same conditions as Czechs. A foreigner is defined as an individual resident outside the Czech Republic or a legal entity domiciled outside the Czech Republic. A legal entity domiciled in the Czech Republic but formed with foreign partners or shareholders (even if wholly owned by them) is always deemed to be a Czech entity.

2.2. The commercial register

The commercial register is regulated in the Czech commercial code. It is a public register in which the information about enterprises required by law is recorded. Everybody has access to the commercial register. In the Czech Republic, entries in the commercial register are also published on the server of the Czech ministry of justice at www.justice.cz. Access is free of charge and in the Czech language. The entries in the commercial register are provided for informational purposes.

Registering a company (or any change in a company) in the commercial register takes not more than five days. The court does not carry out a material check of an application, only a formal one. If the court does not make the entry within five days, it will be deemed to have been made on the next day.

Registry courts: The commercial register is kept by the district court (*krajský soud*) — or, in Prague, by the city court — for enterprises whose registered office is located in their district. The commercial register for a foreigner is kept at the court with local jurisdiction in whose sphere of action the enterprise or branch lies. The Czech Republic has district courts (Ceske Budejovice, Plzen, Usti nad Labem, Hradec Kralove, Brno, Ostrava) and the city court in Prague.

The Czech ministry of justice only provides the application forms, lists of enclosures required with each application and guides to filling in the forms in the Czech language. We therefore recommend registering with a lawyer's help. The court will reject applications or accompanying documents that contain errors or are incomplete.

2.3. Forms of business organization

The following forms of business organization are possible:

Sole trader

A trader or business proprietor is, among other things, a person carrying on an enterprise on the basis of a small business licence. Under the small businesses act, a business proprietor can carry on an enterprise (small business) himself or herself or via a responsible agent, who must be an individual employed by the business proprietor. An individual who is resident outside the Czech Republic (= foreign individual) can carry on a small business on the territory of the Czech Republic under the same conditions and to the same extent as a Czech individual unless otherwise specified by the small business act or other legislative provisions. When applying for a small business licence, an EU, EEA or Swiss citizen will not be required to prove that he or she has a residence permit — or, therefore, place of residence — in the Czech Republic for the purposes of the residency act. A foreign individual must apply to a small business supervision office in the Czech Republic for a small business licence either in person or in writing using the appropriate form. A foreign individual can carry on a business as a sole trader in the Czech Republic within the scope of the business activity for which the licence application was made. A sole trader is liable for the obligations of his or her enterprise with all his or her assets. Based on the small business licence, a business proprietor can carry on the business activity at one or more permanent establishments insofar as he or she has the right to use or owns such establishments. Once the small business licence has been received, the following steps must be taken:

- registration with the locally responsible tax administration (inland revenue office) within 30 days;
- registration of the business proprietor and employees with the locally responsible social security administration (*Sprava socialniho zabezpeceni*) within eight days;
- registration of the business proprietor and employees with the chosen health insurer (*Zdravotni pojistovna*) within eight days.

Company (general partnership, limited partnership, limited liability company, joint-stock company)

A company is a legal entity formed to carry on a business activity. A foreign individual or legal entity can participate in the formation of a Czech legal entity or acquire a stake in a Czech legal entity that has already been formed as a partner or shareholder or himself/herself/itself form such an entity as sole partner or shareholder. The commercial code differentiates between five basic forms of legal entity, each of which must be registered in the commercial register:

- general partnership (*verejné obchodní společnost*, abbreviated as v.o.s.);
- limited partnership (*komanditní společnost*, abbreviated as k.s.);
- limited liability company (*společnost s ručením omezeným*, abbreviated as s.r.o.);
- joint-stock company (*aktiová společnost*, abbreviated as a.s.);
- cooperative (*družstvo*).

The limited liability company is usually the chosen form of business organization. General and limited partnerships are rare. Joint-stock companies have mainly come into being within the scope of privatization processes. The choice of the best form of business organization will depend, among other things, on liability and tax issues.

Limited liability company (s.r.o.)

A limited liability company is a company whose capital stock derives primarily from previously agreed contributions from the partners. The company is liable with all its assets for failure to meet its obligations. The partners are jointly and severally liable for the company's obligations but only up to the amount of any components of the partners' contributions that have not been paid according to the current state of the entries in the commercial register. A limited liability company can be formed by a single founder or by more than one but by a maximum of 50 persons. A limited liability company with just one founder cannot be the sole founder or sole partner of another limited liability company. The company must have capital stock of at least CZK200,000. The contribution of each partner must be worth at least CZK20,000.

The company's required boards and bodies are the partners' meeting and management. A supervisory board can be set up but is not mandatory. The partners' meeting is the company's senior decision-making body. Its sphere of responsibility includes appointing, dismissing and remunerating management; deciding changes to the memorandum and articles of association; adopting the annual financial statements, etc. The partners' meeting must convene at least once a year. Unless the memorandum and articles of association specify otherwise, it has a quorum if partners representing at least half of the voting rights are present. Unless the memorandum and articles of association specify otherwise, CZK1,000 of contributions corresponds to one vote. Unless legislative provisions or the memorandum and articles of association specify a different number of votes, decisions by the partners' meeting are made by a simple majority of the partners present. The company may have one or more managers. A manager is entitled to act in the company's name in all company matters. This power can only be limited by the memorandum and articles of association or the partners' meeting. A manager is obliged to exercise his or her powers with due diligence. Otherwise, he or she will be held liable for damages caused to the company.

The steps involved in forming a limited liability company that are of most importance for the purposes of company law are the adoption of the memorandum and articles of association, payments of the capital contributions and the company's registration at the trade court.

The necessary steps in the process:

- the signing of the memorandum and articles of association including the company's name and address; regardless of the number of partners, the memorandum and articles of association must take the form of a notarial deed;
- payment of the capital contributions into an account at a bank in the Czech Republic;
- application for a small business licence to the responsible small business supervision office; one should make enquiries to the small business supervision office regarding the official designation of the business activity even before the memorandum and articles of association are drafted because the formulation of the small business licence is a decisive aspect of the registration process;
- application for registration in the commercial register at the competent registry court using the form prescribed by the law for this purpose.

The following documents must be enclosed with the application:

- the memorandum and articles of association in the form of a notarial deed;
- the small business licence or other permission to carry on the activity that is to be registered as the object of the company;
- proof of legal title to the premises in which the company's registered office is to be accommodated (e.g. officially certified copy of the lease or, in the case of a freehold, extract from the property register that is not more than three months old);
- a notarial deed concerning the decision of the partners' meeting regarding the appointment of the manager(s);
- extract from the police records (EU citizens: from their home country in the EU; Czech citizens: from the Czech Republic and not more than three months old);
- affidavit(s) by the manager(s) confirming adherence to the provisions of the small businesses act and that he/she/they is/are legally competent; the signature(s) of the manager(s) must be officially attested;
- a document proving the manager(s) consent to his/her/their registration as manager(s) in the commercial register;
- attested specimen signature(s) of the manager(s);
- a declaration by the administrator of the contributions (possibly one of the founders) with an attested signature regarding the payment of the capital stock; pursuant to § 111 Abs. 1 HGB, at least 30 per cent of each cash contribution must have been paid before an application for registration in the commercial register can be made, and the total amount of the cash contributions that have been paid together with the value of any contributions in kind that have been made must come to at least CZK100,000; if the limited liability company has been formed by one person, the entire capital stock must have been paid in;
- original or certified copy of an extract from the commercial register regarding the founder if the founder is a legal entity.

The court fee for registration in the commercial register is CZK5,000. Foreign capital can account for up to 100 per cent of the capital stock of a Czech enterprise. Both contributions in cash and contributions in kind are possible. However, contributions in kind in the form of work or the rendering of services are expressly not allowed. A contribution in kind may only consist property whose economic value can be determined and that can be used in connection with the object of the company. Contributions in kind must have been made in full before the company can be registered in the commercial register. Moreover, the valuation of contributions in kind is strictly regulated.

A foreign individual or legal entity can participate in the formation of a Czech legal entity, become a partner or shareholder of an existing legal entity or himself/herself/itself form a Czech legal entity or become the sole partner or shareholder thereof insofar as legislation permits sole founders or sole partners and shareholders. The law expressly states that foreigners have the same rights and duties as Czech individuals and legal entities in respect of all these activities.

The company must create a “statutory” reserve within the period and in the amount specified in the memorandum and articles of association. If the statutory reserve is not already created at the time of the company’s formation, the company must create it out of the profit for the year recognized in the annual financial statements for the year in which the company turns its first profit, and namely in the amount of at least 10 per cent of the profit for the year but not more than 5 per cent of the company’s capital stock. This reserve must be increased annually by the amount stipulated in the memorandum and articles of association but by at least 5 per cent of profit for the year until the balance reaches the amount stipulated in the memorandum and articles of association and at least 10 per cent of the company’s capital stock.

Joint-stock company (a.s.)

If it is formed without a public offering of shares, a joint-stock company must have capital stock of at least CZK2,000,000. Otherwise, it must have capital stock of at least CZK20,000,000. Thirty per cent of the capital stock must have been paid in at the time the company is formed. A joint-stock company can be formed by at least one founder if that founder is a legal entity, and otherwise by two or more founders. Shares can be issued in bearer or registered form. Registered shares must be registered in the name of their first holder. In its memorandum and articles of association, their company can limit their transferability by subjecting their transfer to conditions. The manner of operation of the joint-stock company will primarily be determined by its memorandum and articles of association.

In general, a joint-stock company can have the boards and bodies that it itself feels that it needs. However, it will at least require a shareholders’ meeting, a managing board and a supervisory board. The shareholders’ meeting is a joint-stock company’s senior decision-making body. It is made up of the shareholders who are present. So long as the law has not removed a shareholder’s right to vote, every shareholder can take part in the shareholders’ meeting and vote on motions put to the meeting. The managing board must convene the shareholders’ meeting at least once a year. The most important company decisions are reserved for the shareholder’s meeting, including, for instance, decisions on amending the memorandum and articles of association; the election and dismissal of members of the supervisory board and managing board; and approval of the company’s annual financial statements. Unless the memorandum and articles of association or legislative provisions require a larger number of votes, decisions by the shareholder’ meeting are generally made by a simple majority of the shareholders present.

The managing board performs legal acts vis-à-vis third parties in the company's name, and it is also responsible for managing the company's business activities. The managing board must exercise its powers with due diligence. Otherwise, it will be held liable for damages caused to the company. Unless the memorandum and articles of association specify otherwise, the managing board must adhere to the instructions given to it by the shareholders' meeting. If the joint-stock company does not have just one shareholder, the law requires the managing board to have at least three members. Members of the managing board are elected for a maximum of five years.

The supervisory board monitors the managing board's exercise of its powers and the company's performance of its business activities. Only individuals can be members of the supervisory board. The supervisory board must have at least three members and the number of members must be divisible by three. If, at the time of the shareholders' meeting that elects the supervisory board, the joint-stock company has over 50 employees whose weekly working hours exceed half the hours contained in a normal working week, two thirds of the members of the supervisory board will be elected by the shareholders' meeting and one third will be elected by the employees of the joint-stock company. Members of the supervisory board are elected for a maximum of five years. The joint-stock company must create a "statutory" reserve out of the profit for the year in which it first turns a profit, and namely in the amount of at least 20 per cent of the profit for the year but not more than 10 per cent of its capital stock. This reserve must be increased annually by at least 5 per cent of profit for the year until the balance reaches at least 20 per cent of its capital stock. Unless otherwise specified in the memorandum and articles of association, the managing board will decide how the reserve is to be used.

Branch

A foreign enterprise can also set up a branch in the Czech Republic. The branch must be registered in the commercial register. The registration process consists of the same steps as the registration of limited liability company. However, registration does not give the branch a legal personality of its own. The Czech branch must bear the name of its parent (founder) within its own name with the supplement *organizacní slozka*. As the branch is not a legal entity, the parent is liable for the branch's obligations.

The parent (the corporate body responsible for the branch) must make the application. The branch manager appointed pursuant to the resolution on the creation of the branch must be registered in the commercial register. The manager must make any applications for subsequent alterations to the branch. However, a lawyer can also be given an authenticated power of attorney allowing him or her to make such applications. A branch that has not only been set up to acquire business in the Czech Republic and also wants to make out invoices and be entitled to reclaim input tax must register for VAT and apply to the competent local inland revenue office for a tax reference number (DIC).

Relocating the registered office of a foreign enterprise

The registered office of a legal entity can only be relocated from another country to the territory of the Czech Republic if this is possible by virtue of an international treaty that is also binding on the Czech Republic and published in the Czech statute book or in the Czech register of international treaties.

3. Accounting

Since the Czech Republic joined the EU, the only permitted accounting system is (comprehensive or simplified) double-entry bookkeeping. Single-entry bookkeeping has thus *de facto* been abolished. A few legal entities (e.g. civil associations, not-for-profit associations, churches, foundations) can apply for simplifications. The entities and persons required to keep books and records now include the following: legal entities domiciled in the Czech Republic; organizational units of foreign entities; individuals registered in the commercial register; individuals whose turnover pursuant to the provisions of the VAT act exceeded CZK15 million in the immediately preceding calendar year; and other individuals who voluntarily elect to keep books and records. Accounts must be kept in accordance with Czech legislation and must be complete, clear and correct. The books must be kept in the Czech or Slovakian language and monetary amounts must be stated in Czech crowns. The financial year is generally identical to the calendar year, but enterprises can also elect to have a financial year that differs from the calendar year. Each fiscal year must consist of 12 consecutive months. The annual financial statements must consist of a balance sheet, an income statement, notes, a cash flow statement and an annual report prepared by management. The law stipulates mandatory formats for the balance sheet and income statement.

All joint-stock companies are subject to complete audits by an auditor. All other companies that are subject to mandatory capital stock requirements (e.g. limited liability companies) and cooperatives are subject to compulsory as soon as they exceed at least two of the following:

- assets of CZK40 million;
- net revenues of CZK80 million;
- 50 employees (averaged over the year).

In the Czech Republic, compulsory audits go hand-in-hand with mandatory publications: The annual financial statements must be lodged in the collection of documents of the pertinent commercial register within 30 days of the issuance of the auditor's opinion and its ratification by the partners' or shareholders' meeting. In addition, insofar as this is required, the annual report, auditor's opinion, report on related party transactions and the report on the use of profit or loss must be filed with the authorities. According to the directive regarding the digitization of the commercial register, documents must be submitted in digital form (PDF format) so that they can be published in the commercial register's central Internet portal. On the other hand, according to a new directive, the annual financial statements must no longer be published in the Czech trade journal (*obchodni vestnik*). Supervision and the imposition of sanctions if publication requirements are not complied with are the task of the competent inland revenue office. If the company fails to comply with the requirements regarding the lodging of documents, a fine of up to 3 per cent of its total assets can be imposed on it.

4. Taxes and Legislation

The signature of President Vaclav Klaus in October 2007 drew a line under the long genesis of the act on the stabilization of the public sector budget. As of 1 January 2008, the first reform package introduced by the new centre-right government and, therefore, the biggest reform of taxes and the social security system since the creation of the Czech Republic, entered into force. It led to extensive amendments to the country's tax, social security and health legislation. Based on these measures, tax revenues are to increase and necessary public spending is to be reduced.

4.1. Income tax

A far-reaching reform of the Czech income tax act took place in 2007. The core of the reform, which has been in force since 2008, was the introduction of a single rate of income tax for individuals, the gradual reduction of the income tax rate for legal entities and the associated adjustments to the definitions of taxable income and the costs that are allowable for tax purposes. All enterprises formed on the territory of the Czech Republic are deemed to be tax residents and must pay Czech tax on all their worldwide income. Organizational units of foreign companies and permanent establishments of foreigners are also liable for Czech tax, but only in respect of their income in the Czech Republic. The concept of permanent establishments has been widely applied, so foreign enterprises that render services in the Czech Republic for longer than 183 days are deemed to be the owners of a permanent establishment and, therefore, liable for Czech tax. An enterprise or permanent establishment must be registered for tax within 30 days of being set up.

Income taxation of legal entities (corporation tax)

Since 1 January 2009, the corporation tax rate has been a flat 20 per cent. From 1 January 2010, it will be 19 per cent.

The flat tax rate is applicable to all enterprises, regardless of who owns them. Following up the bookkeeping act, the income tax act gives legal entities the option of having a fiscal year that differs from the calendar year. A tax period can also be a so-called financial year, i.e. any period of 12 consecutive months beginning on the first day of a month. To change one's tax period from the calendar year to a financial year, it is merely necessary to report one's intention to the competent local inland revenue office.

Note: We recommend consulting a local tax advisor at an early stage regarding tax liabilities and tax possibilities, depreciation, bookkeeping, etc.

Income taxation of individuals

Everybody who is employed and paid by a Czech enterprise is liable for income tax, regardless of the duration of his or her stay in the Czech Republic. Income tax is generally charged on the Czech income of persons who are not permanently resident in the Czech Republic, regardless of the duration of their stay and taking into account any double tax agreements. Foreigners employed by foreign enterprises and paid abroad for work done in the Czech Republic (e.g. business trips) are not required to pay any Czech income tax so long as they do not spend more than 183 days in the country during the calendar year and the foreign enterprise does not have a permanent establishment in the Czech Republic that pays the employee's salary. Foreigners who spend at least 183 days of the calendar year in the Czech Republic (expatriates) are treated as temporary tax residents and, therefore, are liable to pay Czech tax on their worldwide income. These taxable persons are themselves responsible for making advance tax payments on all their income (including salary) unless the foreign employer has a permanent establishment in the Czech Republic, in which case it must withhold the tax for the employee. However, under certain circumstances, income abroad may be exempt from Czech tax under a double tax agreement. If in doubt, it is wise to consult a tax advisor on this point before starting to work in the Czech Republic. An employer withholds personal income tax from wages and salaries. Since 1 January 2008, there has been a flat income tax rate of 15 per cent. The same income tax rates apply to business proprietors trading as individuals.

4.2. The double tax agreement (DTA) between Austria and the Czech Republic

A new agreement on the avoidance of double taxation and prevention of income and property tax evasion between Austria and the Czech Republic took effect on 1 January 2008. The contents of the new agreement are essentially based on the OECD Model Double Tax Convention. The concept of the "permanent establishment" is important in the double tax agreement. However, permanent establishments within the meaning of the double tax agreement are not the same as permanent establishments for the purposes of the Czech Republic's internal tax legislation. Within the meaning of the double tax agreement, a permanent establishment is a "a fixed place of business through which the business of an enterprise is wholly or partly carried on". In particular, such permanent establishments include branches, agencies, production facilities, workshops and mines.

4.3. VAT

In 2008, the reduced VAT rate was increased from 5 per cent to 9 per cent. The rate of VAT on goods and services is generally 19 per cent. The goods and services to which the reduced VAT rate of 9 per cent applies are listed in the annexes to the act (e.g. certain foodstuffs, books, cultural events). Individuals and legal entities carrying on an enterprise and other economically active individuals and legal entities must be VAT registered. The rule for small businesses is that they need not be VAT registered if their turnover in the preceding 12 calendar months did not exceed CZK1 million. Foreign enterprises (from EU and non-member countries) must be VAT registered in the Czech Republic

- if they do business in the Czech Republic, the place of supply is in the Czech Republic and the tax liability does not devolve to the Czech recipient of the supply and
- if they have a permanent establishment in the Czech Republic.

Czech VAT numbers

The Czech term for a VAT number is DIC, which stands for *danove identifikacni cislo*. A DIC consists of the code CZ and the core of the previous tax reference number (the identification number or ICO in the case of a legal entity, the date-of-birth code in the case of an individual). The VAT numbers of Czech enterprises can be verified on the website at http://ec.europa.eu/taxation_customs/vies/vieshome.do.

4.4. Energy taxes and other taxes

Energy taxes

Three new acts that entered into force in 2008 are components of the act on stabilization of the public sector budget. Together, they are known as the energy tax or ecotax acts. The basis for these acts is provided by an EU Council Directive restructuring the Community framework for the taxation of energy products and electricity. In other words, by introducing these energy taxes, the Czech Republic has merely fulfilled its obligations as a Member State of the European Union.

- Natural gas tax: This tax is levied on natural gas and a number of other gases (e.g. town gas and producer gas) supplied, among other things, to power vehicle engines and other machinery, and gas used to generate heat. The tax base is the quantity of gas in MWh of energy released upon combustion. The rate of tax depends on the purpose for which the gas is supplied. Gas supplied to power stationary motors or generate heat is taxed in the amount of CZK30.60/MWh. Until the end of 2011, the tax rate on gas supplied to power engines or for other purposes will be zero.

- Solid fuel tax: Among other things, this tax is levied on hard coal, patent coal and tar. The tax base is the quantity of solid fuel expressed in terms of the energy produced upon combustion in GJ. All solid fuels are taxed at the same rate of CZK8.50/GJ of energy released upon combustion.
- Electricity tax: The tax base is the amount of electricity in MWh. The tax rate is CZK28.30/MWh.

An application must be made to customs for an exemption if the supplier is to make the supply tax-free (and the purchaser to buy it without tax). In addition, the taxpayer must submit a monthly tax return to the customs office that is administering the tax.

Other tax

- Excise: Levied on the products listed in the excise act, which include fuels, alcohol and tobacco. The amount depends on the product.
- Motor vehicle tax: Depends on cubic capacity.
- Inheritance and gift tax: Between 1 per cent and 40 per cent.
- Land transfer tax: 3 per cent of the value of the property or purchase price.
- Land and building tax: Depends on the location and use of the property.

5. Privatization

5.1. EU citizens

With the exception of agricultural and forestry land, EU citizens can buy real estate if they have confirmation that they are temporarily resident in the Czech Republic as an EU citizen or have a permanent Czech residence permit for EU citizens. This permit is issued to EU citizens intending to stay in the Czech Republic for longer than three months. An applicant for a residence permit or confirmation of residence must submit a document confirming the purpose of his or her residence to the aliens' department or a Czech embassy (e.g. contract of employment, small business licence, resolution regarding an appointment as manager). Since EU law is valid in the Czech Republic, this requirement (i.e. the need to have a residence permit) only applied in the exceptional cases agreed during the EU accession process (i.e. secondary residences). When other properties are being purchased, EU law will be applied, so EU citizens can purchase them without having a residence permit. As we have said, limitations on secondary residences only existed until the end of April 2009. A corresponding amendment to the exchange control act is in preparation.

5.2. Legal entities domiciled in the EU

With the exception of secondary residences and agricultural and forestry land, legal entities domiciled in an EU Member State can, without restrictions, purchase real estate in the Czech Republic. In order to be able to purchase secondary residences, they must found an enterprise or set up a branch in the Czech Republic. They cannot buy agricultural and forestry land at all during the transitional period.

5.3. Buying agricultural and forestry land

The exchange control act requires purchasers of agricultural and forestry land to have a permanent or temporary residence permit, to be registered in the register of agricultural business proprietors and enterprises and to have been permanently resident in the Czech Republic for at least three years. EU citizens carrying on an enterprise and EU citizens registered as a board member of a Czech company can obtain a permanent residence permit even without having been temporarily resident in the country. Other EU citizens must have worked in the Czech Republic and must have been resident without a break for at least three years.

5.4. Registration in the property register

A purchase of real estate is only effective when it has been registered in the Czech property register. Without registration in the property register, it will have no effect *in rem*. The registry agencies are the land registries (*kastrální urady*) competent for individual districts. They are located in each regional capital and have branch offices in the various county seats. They are responsible for registering legal relationships and attesting copies of documents in the property register's documents collection. The registry agency competent for a location is the registry agency in whose administrative district the property is located. The addresses of the individual registry agencies can be found on the information server of the Czech Republic's property register at <https://katastr.cuzk.cz/>.

As soon as the purchase contract has been concluded, one can apply to the competent registry agency to have one's ownership registered. Registration has retrospective effect from the time the application is made. According to the Czech administrative code, the application for registration must be processed within 60 days. However, in practice, the registration process can take several months, especially at the property registry agency in Prague.

6. Arbitration

The overburdened Czech courts and the resulting duration of litigation can make it wise to include an arbitration clause in contracts to deal with disputes.

The Czech Republic has ratified the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention). In it, the contracting states undertake to recognize and enforce arbitral awards made in another contracting state.

Consequently, the arbitration clause of the International Chamber of Commerce (ICC) or another arbitrator can be agreed in a contract concluded with a foreign party.

The International Chamber of Commerce is a globally represented organization based in Paris.

The arbitration clause of the International Chamber of Commerce (ICC) reads as follows:

“All disputes arising out of or in connection with the present contract shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules.”

This arbitration clause is also available in many other languages.

Useful agreements to supplement the arbitration clause:

- The number of arbitrators shall be (one or three).
- The applicable law shall be
- The language used in arbitration proceedings shall be

7. Support and Subsidies

The EU Cohesion Policy (2007 – 2013)

Point of Departure and Status Quo

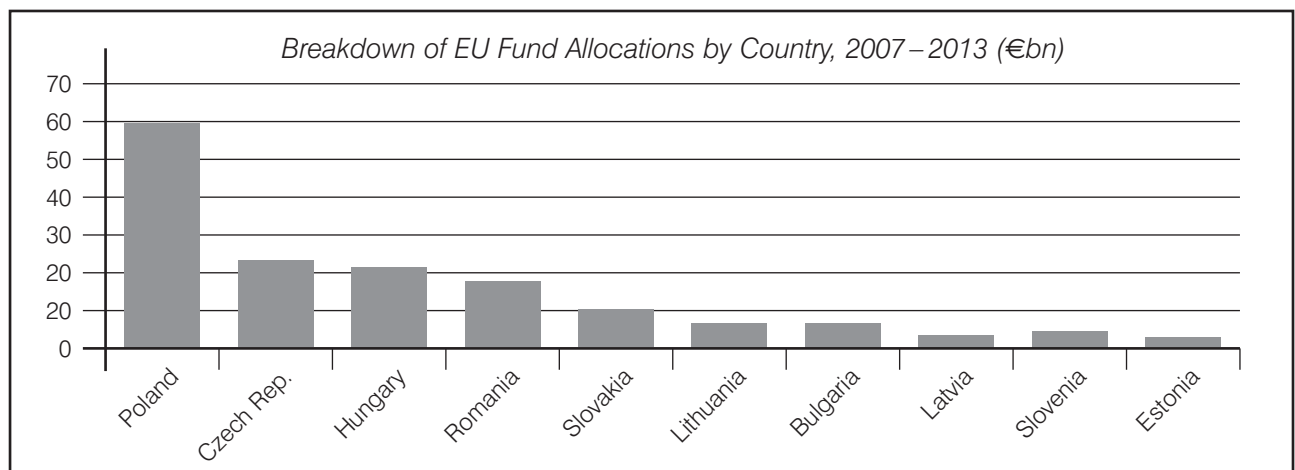
There are considerable economic and social disparities between the different regions of Europe, and this is particularly true in Central and Southeastern Europe.

The EU has set itself three policy objectives to create a balance within these regions:

Objective	Priorities
Convergence	Support for development and restructuring in the less developed regions (formerly Objective 1)
Regional competitiveness and employment	Promotion of innovation and sustainable development, support for the adaptation and modernization of education, training and employment policies
European territorial cooperation	Strengthening of cross-border, transnational and interregional cooperation (formerly INTERREG)

Source: Enterprise Europe Network.

In order to realize these policy objectives, the European Union has allocated structural funds (European Regional Development Fund [ERDF], European Social Fund [ESF] and European Cohesion Fund)) in the amount of €347.4 billion. This EU aid consists of non-repayable grants.



Structure of the Support Programmes: From EU Objective to National Promotional Programme

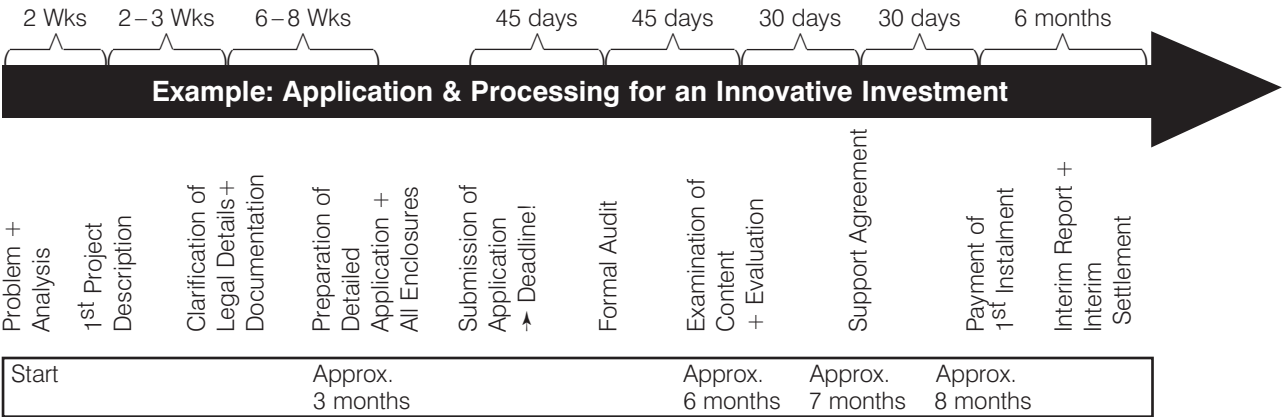
The individual EU Member States define their national and regional priorities on the basis of the EU objectives named above and derive individual operational support programmes (OPs) from them. The OPs are structured according to region and theme. Support focuses (so-called *priority axes*) regulated by guidelines approved by Brussels are defined within these programmes. The following themes are deemed to be the principal focuses for the individual countries: innovation, research and development, creating jobs, environmental protection, training, SMEs, transportation and regional support.

Special national funding agencies (ministries and investment agencies) are responsible for distributing promotional funds. While support can be continuously applied for in Austria within the scope of framework programmes, in Eastern Europe it is granted within the scope of “calls” (tender invitations). Calls for each of the focuses of support named above take place once or twice a year, and they are open for between one and three months. The principal criteria of assessment for the granting of support to companies are the size of a company, its location and the nature of the project to be supported.

How can your company apply for support?

One can submit applications for clearly defined projects while calls are open. Applications will only be accepted if they are complete (project description, approvals, budgeting, ...) and in the language of the country concerned. Projects that have been submitted are then assessed by evaluators using a points system in accordance with the guidelines that have been stipulated or laid down in the programme. All the projects in a call compete with one another. Only those with the largest number of points will be shortlisted for support.

Timescale of a project receiving support:



A complex and time-consuming process takes place between the time of the application and any disbursement of funds. One needs experience dealing with public authorities and the targets they set.

National Subsidies

In addition to the EU structural funds, companies can also apply for support from national funds. To be worthy of support, it is very important for an investment project to be of economic importance to the country or region. The criteria of assessment are the minimum size of the investment, the number of jobs it will create and the minimum period those jobs will continue to exist.

The following investment incentives are possible:

- tax reductions, tax deferrals and tax exemptions;
- grants;
- loans;
- guarantees;
- equity investments;
- cheaper land.

However, these incentives are subject to the national regulations applicable in the particular country (special economic zones, investment certificates, ...) and must be applied for to regional funding bodies.

Please note:

- An application for support must be made before the project begins.
- The guidelines for support must be mirrored in the project description.
- Details of the guidelines may change during a call, so one must always keep up to date with them.
- Investment plans must never depend on support. A project must also be viable without support.
- There is no legal right to support.

For more information, go to <http://www.ri.co.at/index.php?id=307&L=1> or contact our support and subsidy expert:

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8. Risk Mitigation and Finance

Guarding against investment risks abroad

aws (Austria Wirtschafts Service GmbH = the federal government's funding agency)

aws provides guarantees to protect Austrian companies against financial risks arising from their equity investments abroad within the scope of *Ost-West-Fonds* (East-West Fund) guarantees.

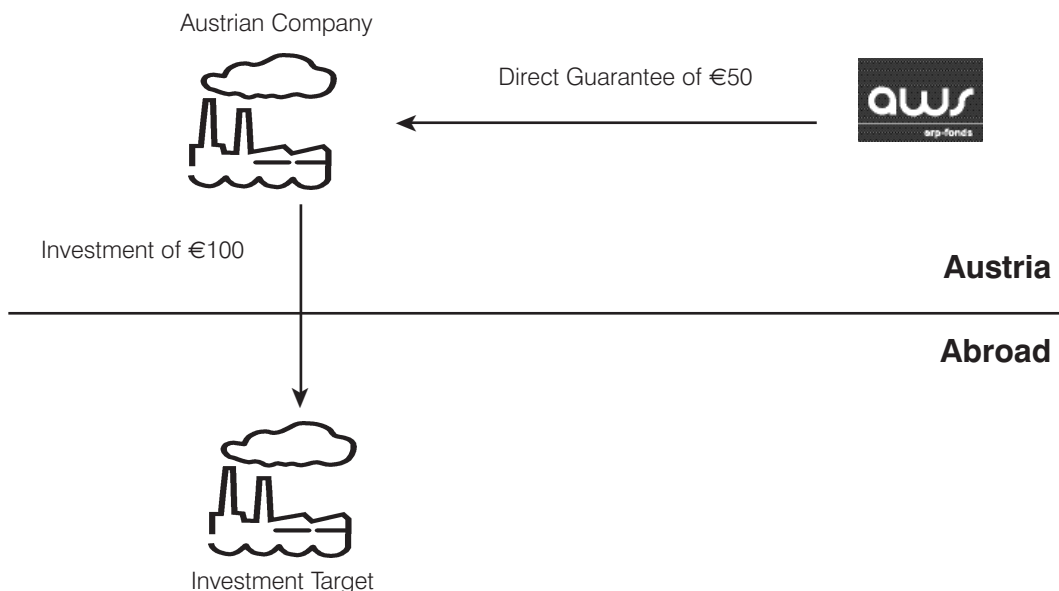
Two kinds of protection are available, the direct guarantee and the finance guarantee (with or without risk sharing).

www.awsg.at

The Direct Guarantee

An aws direct guarantee provides protection against the possible failure (insolvency or similar circumstances) of an equity investment project. aws undertakes to provide a specific capital sum up to the maximum guaranteed amount.

Direct guarantee to cover project risk:



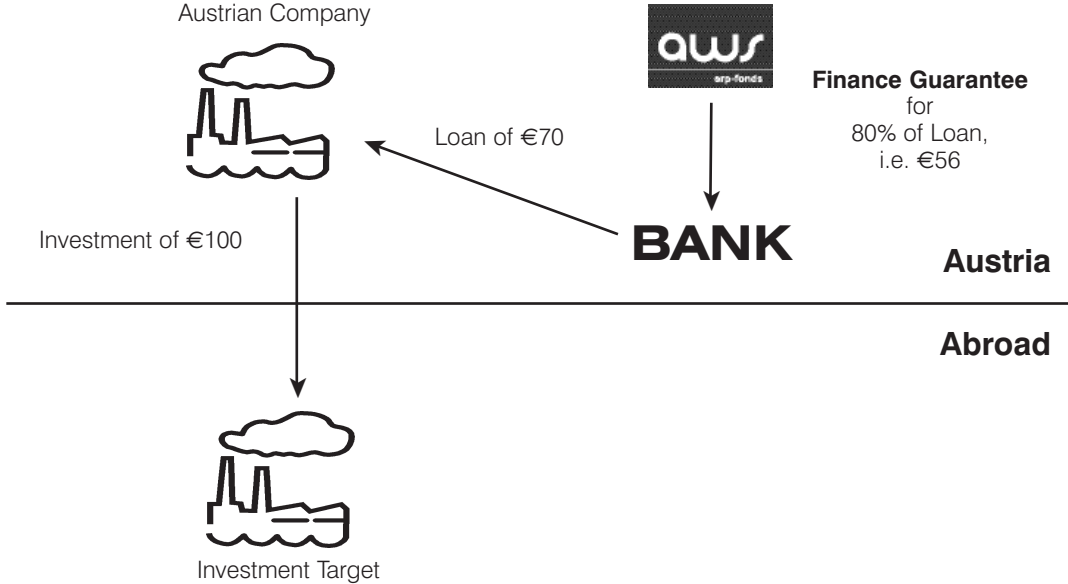
aws guarantees up to 50 per cent of the amount invested by the Austrian company should a project in another country fail. The guarantee will cost SMEs 0.5 per cent of the guaranteed outstanding loan amount per half year.

In the case of large enterprises, the maximum guarantee is one third of the value of the project. The guarantee fee will be set in line with the market.

Finance Guarantee

An *aws* finance guarantee safeguards the bank with protection against the investor’s financial risk (loan loss caused by the Austrian company’s insolvency). A finance guarantee covers up to 80 per cent of the loan.

Finance guarantee to provide cover against credit risk:



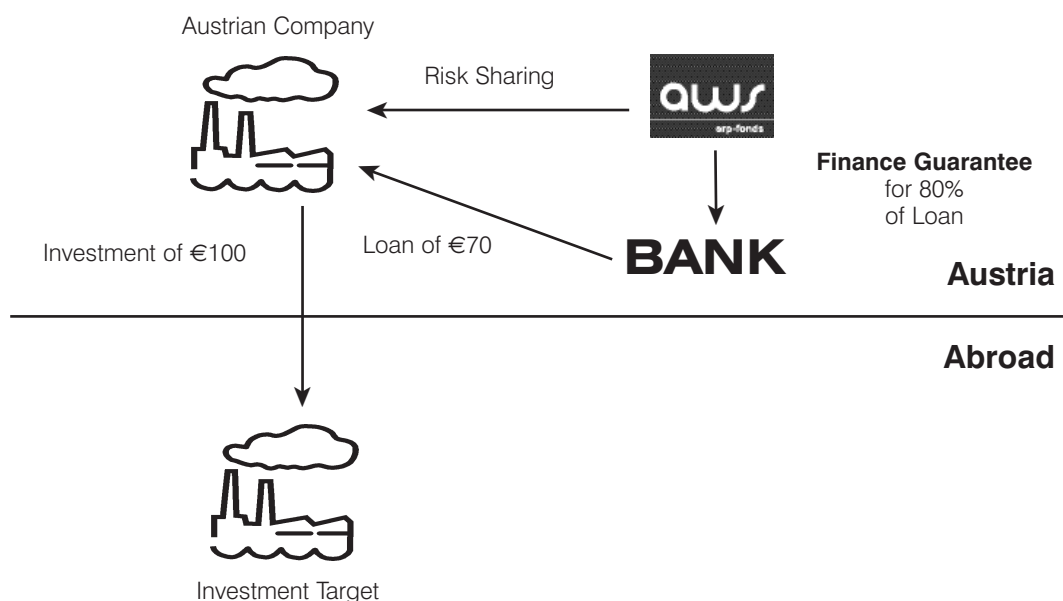
In the case of large enterprises, *aws* guarantee up to one third of a project’s value. The guarantee will cost SMEs from 0.3 per cent of the guaranteed outstanding loan amount per half year. In the case of large enterprises, the guarantee fee will be set in line with the market.

Finance Guarantee with Risk Sharing or Combination of Direct Guarantee and Finance Guarantee

It is possible to supplement a finance guarantee with protection against the financial risk associated with an equity investment project in another country (finance guarantee with risk sharing).

If the equity investment project fails, *aws* takes on the role of financier, offering the investor a cheaper form of finance (soft loan). Alternatively, it may offer the investor a settlement on a present value basis to allow early repayment of the loan. It is important to note that *aws* will only agree to risk sharing if it is ensured that the Austrian parent company is not in a position to deliberately make the equity investment fail (e.g. by charging excessively high internal prices).

Finance guarantee with risk sharing to cover the credit risk and project risk:



The guarantee will cost SMEs 0.3 per cent of the guaranteed outstanding loan amount per half year plus another 0.2 per cent per half year for risk sharing. In the case of large enterprises, the guarantee fee will be set in line with the market.

Low-interest finance, credit for internationalization projects:

OeKB (Österreichische Kontrollbank AG)

Good risk management and attractive sources of funds are essential if companies are to achieve sustainable success as exporters and when investing abroad. *OeKB* offers federal export guarantees, bill guarantees and funding variants that are processed through a company's own bank, thus providing instruments that strengthen Austrian companies and their partners in the global competitive environment.

By issuing and processing export guarantees, *OeKB* therefore acts as the Republic of Austria's export credit agency (ECA). Export guarantees give Austrian companies protection against manufacturing and default risks when exporting abroad (whether caused by economic or political events in the importing country), and an export guarantee provides protection against political risks when investing abroad. The broad range of possible forms of protection is available to all small, medium-sized and large enterprises. If the export transaction or investment abroad helps improve Austria's current account (e.g. export of goods or services that are predominantly of Austrian origin, repatriation of dividends, repatriation of interest and capital, creation of jobs in Austria, know-how transfers), one of the key prerequisites for an *OeKB* guarantee has already been met. Further information about protecting oneself with federal export guarantees can be obtained directly from the *OeKB* website (www.oekb.at).

In addition to protecting export transactions and investments, you can also apply for *OeKB* funds to finance exports and investments abroad through your bank.

The principal prerequisites are:

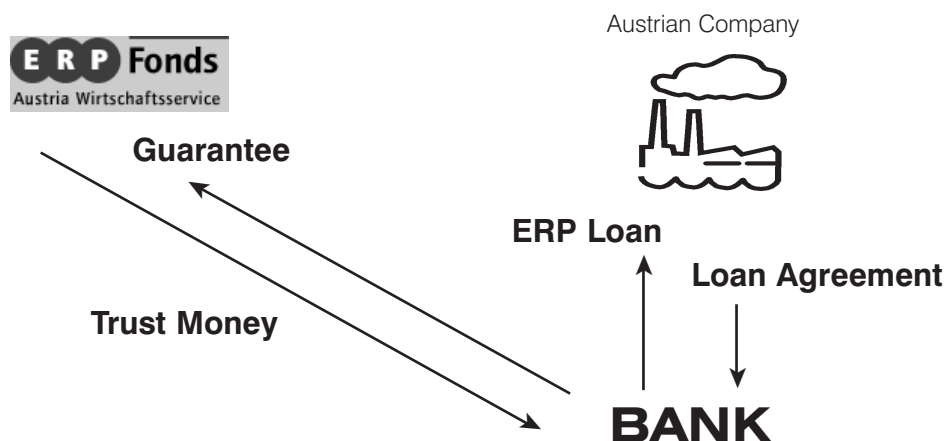
- the assumption of liability by the Republic of Austria in the form of a bill guarantee or other guarantee or
- a guarantee from a loan insurer or
- an *aws* guarantee or
- a guarantee from an international organization and
- a direct or indirect improvement to Austria's current account.

ERP Fund

The ERP Fund is a fund with a separate legal personality that has been affiliated with *aws* (*Austria Wirtschaftsservice*) since 2002. The fund's assets derive from capital allocated within the scope of the United States' Marshall Plan. The Marshall Plan (European Recovery Program, or ERP for short) was set up to promote Europe's economic recovery after World War II. Low-interest advances with grace periods of several years are available within the scope of ERP loans:

The ERP internationalization programme for direct investments abroad:

- Target group: Austrian SMEs, large enterprises within the *de minimis* limit (present value of loan not more than €200,000 within 3 years) .
- Support for: equity and other investments that will improve the applicant's strategic position.
- Equity and other investments in the following countries: Albania, Algeria, Argentina, Bosna and Herzegovina, Brazil, China, Croatia, Egypt, India, Indonesia, Iran, Korea, Libya, Malaysia, Morocco, Macedonia, Mexico, Montenegro, Pakistan, Russia, Saudi Arabia, Serbia, Sri Lanka, Thailand, Tunisia, Turkey, the Ukraine.



- Terms and conditions:
 - Maximum loan: €7.5 million
 - Duration: 6 years
 - Period of utilization: 0.5 years
 - Grace period: 2 years, interest rate of 1.75% p.a. (fixed)
 - Redemption period: 4 years, interest rate of 2.25% p.a. (fixed)
 - In a number of programmes, longer grace periods and redemption periods are also on offer: sunrise industries within the technology programme, regional programme with a longer duration.
 - Interest charged on an accrual basis.
 - Processing fee: 0.9% of the ERP loan.
 - In addition to these costs, there will also be the guaranteeing bank's guarantee fee.
- Projects eligible for support:
 - investments in:
 - manufacturing facilities
 - setting up subsidiaries
 - manufacturing joint ventures
 - acquisition of a minority stake (at least 25%)
- Costs that can be subsidized:
 - capital contributions
 - partners' loans
 - cost of acquiring an equity investment
 - costs directly associated with investments

The KfW Banking Group (Kreditanstalt für Wiederaufbau, Frankfurt, Germany)

KfW-Bank offers subsidized, fixed-rate loans to pay for investments carried out abroad in connection with internationalization projects by German companies or by their subsidiaries or joint ventures with German partners (German stake > 25%). They can be applied for through partner banks (e.g. RZB).

The following programmes come into question in connection with internationalization projects:

Corporate Loans, the *KfW Environmental Programme*, and *KfW Capital for Jobs and Investment* (all three programmes may be combined).

Essentially, any investment can be financed (e.g. corporate acquisitions, investments in plant, equipment, land and buildings).

Link: www.kfw-foerderbank.de/

9. Payment and Account Services at Raiffeisenbank a.s.

9.1. Cash management products

Account Services

	National Currency		Foreign Currencies	
	(NC)	NC Deposits	(FCs)	FC Deposits
Residents	✓	✓	✓	✓
Non-residents	✓	✓	✓	✓
Interest on credit balances	✓	✓	✓	✓
Overdrafts	✓		✓	

Cash Management: Local Products and Services

Payments, Deposits

- Domestic payments (NC)
- Domestic payments (FCs)
- Foreign payments (FCs)
- Foreign payments (NC)
- Domestic debits
- Foreign debits (NC)
- Cheques
- Cheque collections (bank cheques)
- Travellers cheques
- Cash deposits / withdrawals (NC)
- Cash deposits / withdrawals (FCs)
- Foreign currency buying and selling
- Bank cards
- Credit card collections

Electronic Banking

- Local Electronic Banking
- MultiCash
- Internet Banking
- SWIFT MT 940
 - Transmission to foreign banks – Yes
 - Incoming messages can be imported into MultiCash
- SWIFT MT 101
 - Processing – Yes
 - Creation – No
- EDIFACT (PAYMUL)

Liquidity Management

- Overdrafts
- Cash Pooling Zero Balancing
- Cash Pooling Interest Offsetting
- Cross-border Cash Pooling
- Collection of daily takings
- Multilevel Sweeping

Cash Management: Group Products and Services

- Cash Management International (CMI)
- International Account Reporting
- International Disbursement Service
- Intra Group Payments (IGP)
- Cross Border Effective Pooling with RZB
- Low Value Payments
- International Liquidity Management
- Services within two Banking Clubs: UniCash and Connector (accounts openings, payments)
- CMI@WEB

9.2. Legislative provisions and exchange control

Account Services

- Foreign and Czech corporate and business banking customers can hold accounts in both foreign currencies and Czech crowns.
- Czech residents (individuals and legal entities) can hold accounts abroad but must report them to the Czech national bank.
- All banks in the Czech Republic must pay 0.1 per cent of all non-anonymous deposits into savings accounts, which are insured, to the deposit guarantee fund. Any anonymous savings deposit balances that still exist are uninsured and do not earn interest. It is no longer permissible to open new anonymous savings accounts.

Domestic Payments

- No restrictions.
- Every payment order must state the payer's account number and sort code, the beneficiary's account number and sort code, the amount, the currency and the required date of execution.
- All other information such as "fixed", "variable" or "special" will merely be used to identify the payment.

Foreign Payments

- The exchange control act of 1995 made the Czech crown convertible for current account transactions.
- Cross-border Czech crown payments are also allowed.
- The Czech Republic does not have a clearing centre for foreign currency payments, so every foreign currency payment is treated like a foreign payment and routed through a correspondent. The reason for all incoming and outgoing foreign payments must be disclosed.
- Within the EEA, euro payments of up to €50,000 are processed on more favourable terms in accordance with EU regulations. For these regulations to take effect, the payment order must quote a valid BIC (Bank Identification Code) and the beneficiary's account number in the form of an IBAN (International Bank Account Number).

Cash deposits / withdrawals

- No proof of identity is required for cash deposits or withdrawals of less than CZK100,000.
- Proof of identity is required for cash deposits or withdrawals of CZK100,000 or more. The customer must produce an identification document (ID card or passport) for this purpose. The bank must record the name, date of birth and number of the identification document.
- Every payment of CZK500,000 or more must be made by bank transfer.

9.3. Clearing mechanisms

Mechanisms

- Description: RTGS clearing:
All domestic payments are cleared through the Czech national bank's clearing centre. All licensed banks must use the national clearing system and must have an account at the Czech national bank. Regardless of amounts, all payments must be cleared through this system. Within the domestic payments structure, the Czech crown accounts of foreign accountholders are treated like domestic accounts.
- Type: RTGS (Real Time Gross Settlement)
- Value date: Same-day value (no flow of payments through the clearing system)
- Settlement procedure:

Payer's bank	0–1 day
Clearing centre	0 days
Beneficiary's bank	0–1 day

The beneficiary should receive a payment with a value date of D+1, or D+2 at the latest.

Priority domestic payments:

- Debit from the payer's account D
- Credit to the beneficiary's account D

Banks' clearing system memberships

Mandatory for all banks in the Czech Republic

D = Day order is received from customer

9.4. Value dates

Order Type	Cut-off Times	
<ul style="list-style-type: none"> • DPs, paper-based • DPs, paper-based, priority • DPs, electronic • DPs, electronic, priority • FPs, paper-based • FPs, electronic • Cross-border Czech crown payments 	15:00 CET	11:00 CET
	18:00 CET	11:30 CET
	11:00 CET	15:00 CET
	11:00 CET	
Process	DPs	FPs
<ul style="list-style-type: none"> • Debit from customer's account • Transmission to other bank • Credit to beneficiary's account 	D	D
	D+1	D+1 (D+2 if currency translated)
	C+1	C+1 (C+2 if currency translated)
Payments within the bank (Raiffeisenbank a.s.) <ul style="list-style-type: none"> • Debit from customer's account • Credit to customer's account 	D	D
	D	D

D = Day order is received from customer

C = Day order is received from customer's bank

DPs = Domestic payments

FPs = Foreign payments

CET = Central European Time

10. Raiffeisenbank a.s.

Assets, €m	7,198
Branches	107
Staff	2,654
As at 31 December 2008	

Shareholder structure:	
<i>Raiffeisen International</i>	51%
<i>Raiffeisenlandesbank NÖ-Wien AG</i>	24%
<i>RB Prag Beteiligungs GmbH</i>	25%

The merger of *eBanka a.s.* —in which *Raiffeisen International* acquired a majority stake in 2006—with *Raiffeisenbank a.s.* —which was founded in 1993—was completed in July 2008. Since that time, the two banks have been operating under the shared name of *Raiffeisenbank*. In recent months, all branches with the *eBanka* design have been refurbished in line with the new, Group-wide *Raiffeisen International* branch design concept.

At 31 December 2008, Raiffeisen had 2,650 employees working at 107 branches in the Czech Republic. They were servicing roughly 411,000 customers. The bank had assets of €7.2 billion, or 27 per cent more than at the end of the previous year, giving it a market share of nearly 4 per cent. This makes *Raiffeisenbank* one of the country's five biggest banks. Its business focus is on servicing high net worth private banking customers, SMEs and large enterprises. Customer deposit balances increased by 18.7 per cent to €4.2 billion during 2008, while the loan portfolio grew by 25.6 per cent to €5.5 billion.

11. Your International Business Specialists at Raiffeisenbank a.s. and the Global Raiffeisen Network

Your specialist at Raiffeisenbank a.s.

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Notes

Notes

**Raiffeisen
Meine Bank**



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