

World Winning Cities



Emerging City Winners:

Brno

CEE City of the Future





A Mature Economy

The Czech Republic is increasingly displaying the characteristics of an advanced economy. Membership of the European Union (EU), its strategic location at the centre of Europe, its sound economic fundamentals supported by high levels of foreign direct investment (FDI), and rapidly rising disposable incomes, have all contributed to the country's transformation in recent years.

Despite current political difficulties, the country's economic fundamentals are strong, and the general move towards economic convergence with Western Europe remains unchanged.

Favourable International Ratings

The Czech Republic's country credit rating is considerably higher than that of the other CE-4¹ economies. Its economy is rated as an "A" risk by Fitch, the international rating agency. The Czech Republic has been identified by AT Kearney as "a rising star in the region due to its competitive infrastructure costs, stable business environment and particularly strong education system". According to BMI, the country is well ahead of other CEE countries and also scores above the laggards in the EU's 'old guard', such as Greece and Italy, when infrastructure, institutions and market orientation are taken into account.

Financial Soundness

Testimony to its sound political and economic fundamentals, the Czech Republic's 10-year government bonds were trading at 3.7% (as at 21/02/2007), putting them well below France (4.1%), Germany (4.5%) and Spain (4.1%). Bond yields are significantly below those in neighbouring Poland (5.2%) and Hungary (7.0%).

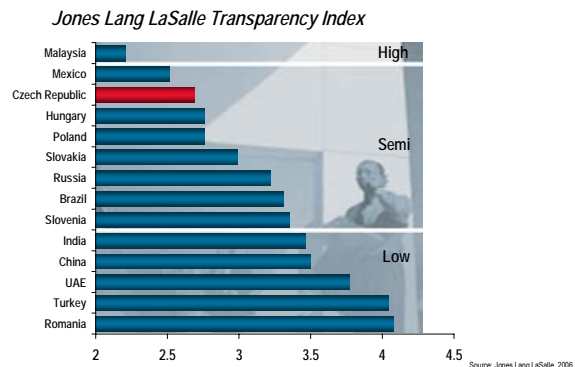
The strength of the Czech koruna and the recent fall in oil prices should reduce imported inflation and risks of near-term monetary tightening.

An Increasingly Transparent Market

The Jones Lang LaSalle Global Real Estate Transparency Index 2006 ranks the Czech Republic alongside Western European markets such as Italy and Portugal. With EU accession and the growing demand from cross-border investors, real estate market transparency in the Czech Republic is improving and is ahead of almost all other emerging markets.

According to the World Economic Forum, the Czech Republic is the second most competitive country in Central and Eastern Europe after Estonia, based on economic growth potential, access to capital and managerial competence. The business environment is improving as the Czech Republic streamlines procedures for starting new businesses and reduces the tax burden on firms.

One of the Most Transparent Emerging Markets



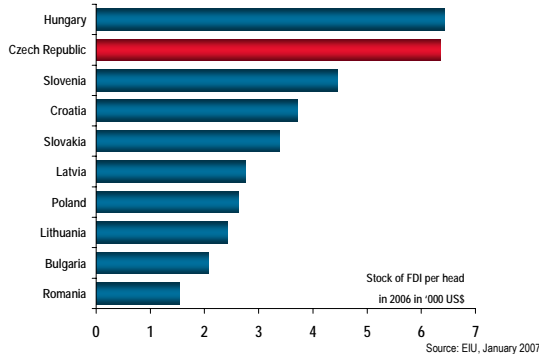
Record GDP Growth Rates in 2006

The Czech Republic is among the region's strongest economic performers and GDP growth rates remain high. In 2006 GDP grew by 6% y-o-y, following 6.1% in 2005, proving the economy's robustness. Even though growth is expected to ease in 2007 to around 5%, it is still much stronger than the EU average. The Economist Intelligence Unit (EIU) has forecast Czech economic growth at over 4% year-on-year until 2010, as compared to 2.2% in the EU27. The structure of GDP is changing and higher household consumption is taking over from foreign trade as the main driver of the economy.

The postponement of the 2010 Euro adoption target in September 2006 is not troubling in itself, so long as economic growth continues at a strong pace and the markets remain confident. At 3.5% at the end of 2006, the budget deficit remains among the lowest in the region, but it is highly unlikely to fall below 3% of GDP - a requirement for joining the Eurozone.

¹ The Czech Republic, Hungary, Slovakia, and Poland

Regional Leader in FDI
Foreign Direct Investment Per Capita



A Regional Leader in FDI

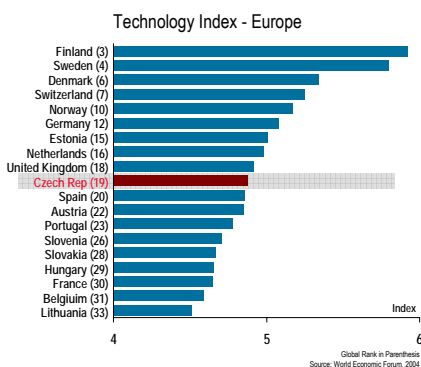
Full integration with the European markets contributed to a surge in exports and record high FDI inflows in 2005. In 2005 and 2006 the Czech Republic was the region's top destination for high-end FDI, specialising in R&D centres for IT and advanced technologies. The Czech Republic is the most advanced among CEE economies in transforming into knowledge economy.

By 2006, the cumulative FDI stock had reached US\$ 65.3 billion and now equals the FDI stock in Hungary. In 2006 FDI flows reached US\$5.8 billion, following a record high of US\$11 billion in 2005.

IT Momentum Growing

According to Business Monitor International (BMI), the Czech information technology market was worth over US\$3.2 billion in 2005, growing by 10% a year. BMI expects that by 2010 its total value will increase to around US\$ 4.7 billion. IT services and software are poised to grow at the fastest rate, driven by the implementation of government and EU IT projects, the privatisation and restructuring of key industries, and growth in outsourcing.

Amongst Europe's Most Technologically Advanced



The attractiveness of the Czech Republic for international IT companies reflects the country's rapid progress in developing its technology infrastructure, its innovation capacity, and its quality tech-literate labour pool. This has enabled the country to move quickly into higher value activities. Between 2002

and 2006 labour productivity grew by 15.2 %, according to the Boeckler Institute, and grew by 4.6% in 2006 alone, one of the highest growth rates recorded in EU.

Automotive Sector Booming

Ernst & Young has asserted that in terms of automotive industry investments the Czech Republic is number one in Europe. The Czech automotive sector accounts for around 15% of GDP, and output is set to grow further. The value of the Czech Republic's commercial vehicle production will rise from US\$396 million in 2005 to US\$2.97 billion in 2010.

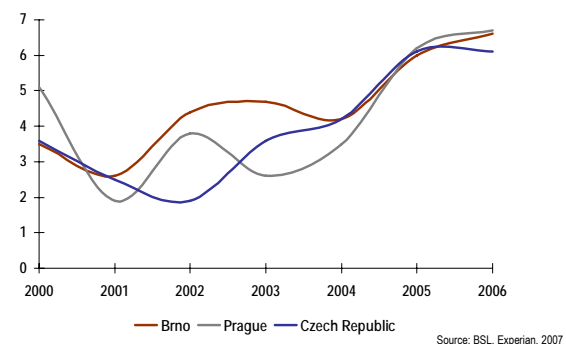
The two greatest successes of 2006 were the record investment of the Korean carmaker Hyundai and the entry of the Japanese strategic investor IPS Alpha. Also, in November 2006 Skoda increased production of its new and very successful Roomster model. These among other investments will have a 'multiplier effect' on the Czech economy.

Brno - the heartland of CEE

Brno, the second largest city of the Czech Republic, is the capital of South Moravia (Jihomoravsky Kraj). With 390,000 inhabitants Brno is the region's prime administrative, business and production hub. Accounting for 11% of the country population (1,230,000), the South Moravia region generates over 10% of the national GDP, and Brno alone produces over 50% of the region's GDP. Brno and its region as a whole is performing better than the country's average, the Czech economy remaining among the most robust of the CEE.

Brno v Prague v National average

Brno's economy grows faster than Prague's



Brno is located in the geographical centre of the CEE. Within a 200 km radius lie Vienna, Bratislava, and Prague, while Budapest, Silesia and Wroclaw are less than 300 km away.

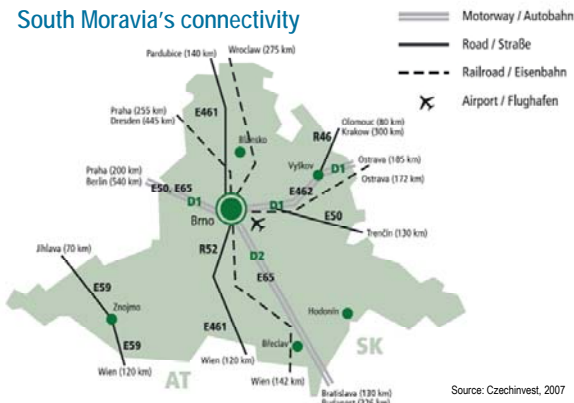
Connectivity

International transport connections and related infrastructure are key considerations for investors searching for the most accessible CEE locations. Brno's international career started with the improvement of its international connectivity in 1991, when the city became a stop for Euro City trains on the Vienna-Prague line. In terms of the quality and international

connectivity of the transportation network, Brno already has a considerable competitive advantage over its regional peers.

Brno is an ideal hub for travel throughout Europe and, via the system of the highways, the city is connected with Germany through Prague, southern Europe through Vienna, and Slovakia through Bratislava. The international airport in Brno serves regular flights to London, Munich and Prague and has considerable potential for further growth. Both Prague and Vienna international airports are in 2 hour drive radius.

South Moravia's connectivity



Brno is CEE City of the Future

At the 2006 MIPIM conference Brno was identified as the 2006/2007 Central European City of the Future. In addition to rapid economic growth and the high level of per capita GDP, the city was praised for its development strategy, considerable investment incentives and public investment projects.

Companies, which have recently chosen Brno, value the city for its numerous positive features. Accenture selected Brno for its proximity to its existing Prague and Bratislava delivery centres, as well as the region's highly qualified workforce of talented information technology professionals, fluent in multiple languages. Red Hat points to its rich talent base, as the company plans to tap into the pool of university graduates.

Offering accommodating infrastructure and a rapidly growing business environment Brno boasts a considerable competitive advantage over Prague and its CEE regional peers in economic power and potential, such as Bratislava, Krakow, Katowice (Silesia) and Wroclaw.

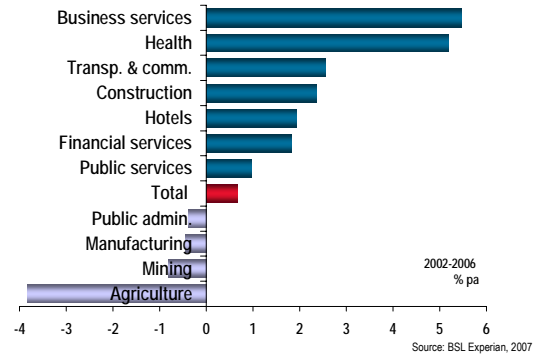
The Labour Market Adjusts to a Diversifying Economy

The South Moravian region has historically been characterised by a large and relatively diversified industrial production sector, which still accounts for around 34% of employment. The predominance of the traditional industrial segments, such as mechanical and electrical engineering, is slowly decreasing in favour of electronics (now accounting for some 13% of industrial employment), informatics,

telecommunications, medical technology and the manufacturing of research instruments.

Brno's Employment Structure Changes

Service sector grows while traditional production and agriculture diminishes



The transformation of the local economy is best reflected in the rapid growth of the services sector, which nowadays provides over 60% of employment in the region. Business services represent 20% of employment, followed by retail trade (14%), and transport and communications (7%). Public services account for 17% of the regional labour market.

Business services are the fastest developing sector while the considerable growth in healthcare reflects the growing needs of the ageing population. While the overall population of Brno and its region, as well as the working age group, remain stable, the retired population is growing while the proportion of youth is diminishing.

In terms of the availability of skilled labour, Brno, with unemployment at around 9%, holds a considerable advantage over Prague for potential employers. Brno's unemployment rate is close to the national average, but is considerably higher than Prague's at 1%. Prague already suffers from severe skills shortages.

The Capital of Trade Fairs

The city's high share of service sector employment as compared to its region reflects Brno's role as the regional business hub as well as its position as a centre for international exhibitions and conferences. Brno's trade fairs attract over 900,000 visitors a year.

The Local Administration is Focused on Building Business Infrastructure

As is the case with most Czech municipalities, Brno has relatively limited expenditure responsibilities. The city takes care of infrastructure development, public transport, road maintenance and water and sewage facilities, while the state covers the majority of costs for education, healthcare, social security and pensions. The limited scope of its responsibilities allows for a significant proportion of funds to be directed towards capital investment projects.

The diversification of the economy remains one of the strategic goals of the Brno municipality. The concentration of higher education and medical research institutions significantly exceeds the national average, presenting a good platform for ongoing innovation and knowledge-based development. In order to strengthen the link between the city's research capabilities and their industrial applications, the city is developing adequate business infrastructure, such as the Czech Technology Park, BUT Technology Incubator, and the Brno Industrial Zone — Cernovicke Terrace, and is planning further projects. Thanks to the dynamic development of local universities, such as Masaryk University and the Technical University, Brno is among the cities with the highest proportion of university students per capita.

The city is also encouraging the development of entrepreneurship by providing start-up support to small- and medium-sized enterprises, primarily in the technology field. High-quality telecom infrastructure has facilitated the introduction of strategic logistics services, such as the IBM call centre. IBM has already been operating in the Czech Technology Park since 2001.

The Czech Technology Park is the technology incubator. Located on 120 hectares of land, 3km north west of the city centre, and includes the campus of the Technical University. Apart from IBM, the Technology Park Brno is home to companies such as electron microscopes produced FEI, German engineering group Siemens, IT hardware producer SGI, as well as Vodafone and Bovis Lend Lease.

Brno is Gaining a Reputation as a Prime Offshoring Location

The Czech Republic has been identified by many companies as the prime location for their regional headquarters, due to its stimulating business environment and wide base of top-class talent and expertise. The country's membership in the EU, the growing demand of European clients for IT outsourcing and its logistics accessibility serves well the customer base located in key European markets. Until recently Prague remained the location of choice, but this is changing rapidly as Brno, and to some extent Ostrava and Plzen, receive increasing recognition as attractive offshoring locations.

The current second wave of CEE offshoring is drawn by the prime business environment in the secondary cities of the region. Brno, Ostrava, Plzeň in the Czech Republic as well as Łódź, Kraków, Katowice, and Wrocław in Poland feature prominently on the companies BPO maps.

Brno is one of the best performers among secondary cities. Brno has succeeded in luring several BPO firms away from Prague and other CEE locations, notably:

- The service centres of Lufthansa, Progeon, IBM

- 3rd party service providers such as Symbol Technologies, Acer, Giga Byte Technologies,
- Production: Daikin Industries, Daido Metal and Ohmori;
- Pharmaceutical production: Aguna.
- R&D: Honeywell and Alpha among others.

Largest investment projects in South Moravia in 2006					
Investor	Sector	Country	Invest. (CZK mil.)	Jobs	Location
Quaprotek	metal-processing	Germany	252.32	100	Pohorelice u Brna
Synthon	pharmaceuticals	Netherlands	250.00	30	Blansko
Emerson Copeland	electronic devices	USA	159.70	48	Mikulov
The BOC Group	repair centre	Great Britain	130.33	71	Brno

Source: CzechInvest, 2007

The reputation of Brno as a favorable offshoring location is growing. In 2006 alone 25 companies decided to invest nearly EUR178 million in the South Moravia region and are creating jobs for more than 3,000 people. In the last months of 2006 and early 2007 Brno's offshoring community has grown with the arrival of the following:

- Modus Link, service provider in the area of supply-chain management, e.g. in electronics manufacturing, planning and management of services for other brands;
- TAM Europe, which performs maintenance for top electronics producers;
- Lektronix which is engaged in the repair of industrial electronics such as robots, industrial control units (PLC), servomotors, invertors and operator consoles for controlling milling machines.
- Red Hat, the Linux-based software developer, is locating a 3,000sq m centre in the vicinity of Masaryk University's Faculty of Informatics;
- Accenture's sixth centre operating in Central and Eastern Europe, where in the coming months Accenture intends to employ and train approximately 200 IT professionals and graduates with information technology skills. In the long-term, more than 400 workers could be employed at the centre.
- In September 2006 Infosys Technologies announced the expansion of its near-shore capability at Brno in the Czech Republic with a new 350-seat facility under development to double the capacity of its existing facilities by 100%.
- The Dutch company Synthon is investing more than EUR8 million in completing the conversion of its chemical plant in Blansko near Brno from a chemical enterprise into a purely pharmaceuticals firm. The company is planning to employ 25 to 30 highly-qualified workers upon the full completion of the plant's conversion in 2009.

Brno Offers Exceptional Quality of Living

Brno is Europe's tertiary hub with prime infrastructure, a friendly cityscape and direct access to spectacular nature. Similarly to Aarhus in Denmark and Maastricht in the Netherlands, Brno is among 'smallest big cities of Europe'. With complete service and entertainment offer, a diversified business sector and competitive living costs (such as residential prices), Brno's offer is complementary to that of Prague.

Brno is an important tourist centre with many natural and cultural attractions. South Moravia's key attractions include:

- Lednice-Valtice Cultural Landscape, listed among UNESCO World Cultural Heritage Sites;
- Tugendhat Villa by Mies Van der Rohe in Brno, also on the UNESCO list;
- Pálava and the White Carpathians (Bílé Karpaty) - natural reserves;
- Cave systems and the famous Moravian Karst (Moravský kras).

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