

NEWS SUMMARY AUGUST 4 – AUGUST 9

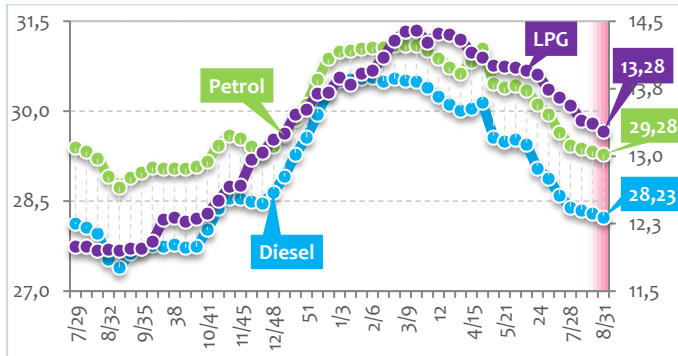
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ECONOMY & FINANCE

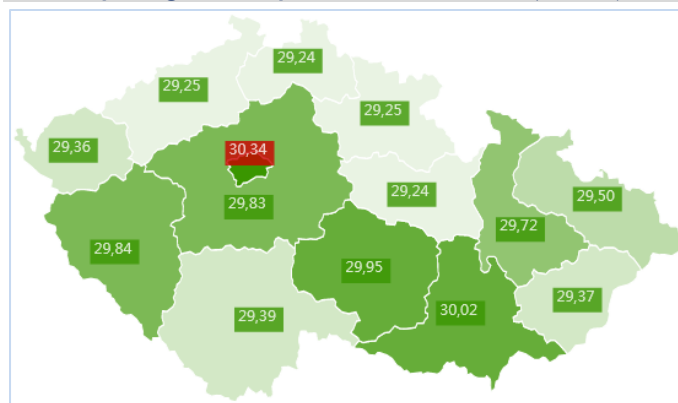
FUEL PRICES – 4. 8.

Natural 95 decreased moderately by ▲5h¹ to CZK²29.28/l³ over the past week. Diesel oil decreased by ▲7h to CZK28.23/l.

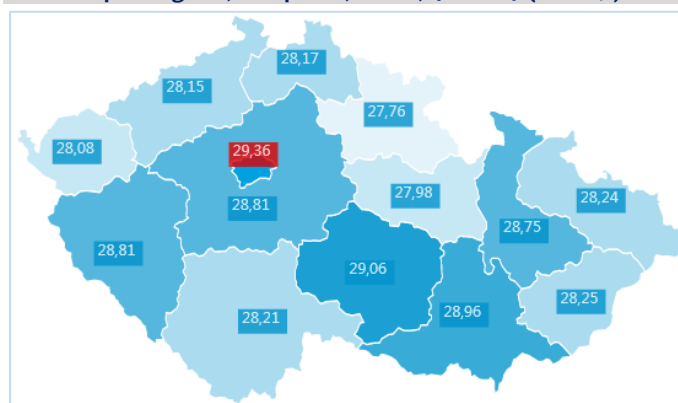
Graph 1: Average fuel prices⁴, 2016/2017, Month/Week (in CZK/l)



Map 1: Regions, fuel prices, Petrol, 4. 8. 2017⁵ (in CZK/l)



Map 2: Regions, fuel prices, Diesel, 4. 8. 2017 (in CZK/l)



CIA ČNB RAISES RATES AFTER 9 YEARS – 4.8.

The Bank Board of the Czech National Bank (CNB) decided to raise the two-week repo rate by 20 basis points to 0.25% at its

¹h: Heller, a term was used for a coin valued at 1/100 of a CZK, it continues to be used as a means of calculation since the CNB removed the coins themselves from circulation in 2008 and notionally replaced them with rounding to the next CZK.

² CZK: Czech Crown, the currency of the CR since 8 February 1993

³ l: litre, is an SI accepted metric system unit of volume equal to 1 cubic decimetre (dm³), 1,000 cubic centimetres (cm³) or 1/1,000 cubic metre.

meeting on August 3, 2017. The board also raised the Lombard rate by 25 basis points to 0.50% and kept the discount rate on the level of 0.05%. The new rates are valid as of August 4, 2017. It has been the first change in interest rates since November 2012, when the bank reduced the repo rate to so-called technical zero. The decision represents the first rate hike since February 2008.

CTK CNB SLIGHTLY WORSENS PUBLIC FINANCE ESTIMATE FOR THIS YEAR – 4.8.

The CNB moderately worsened its public finance development estimate for this year, it expects a surplus equal to 1% of GDP, in the previous estimate from May it had put the surplus at 1.1%, shows the Report on Inflation made public by the CNB today.

For next year, the central bank has kept its estimate at 1.1% of GDP and in 2019, the surplus is to reach 1.1% of GDP as well.

Czech public finances ended in a surplus equal to 0.58% of GDP last year, one of the best results in the EU which requires public finance gap no higher than 3% of GDP.

The Finance Ministry in its July forecast expects a public finance deficit at 0.4% of GDP this year. It has not disclosed the estimate for next year in this forecast but in the convergence programme from this year's April, the ministry estimates a deficit at 0.3% of GDP for next year and a 0.5% gap for 2019. The same deficit should be seen also in 2020.

Total government debt should be improving as well, according to CNB data. Its share in GDP is to drop to 34.2% this year from last year's 36.8%. It is to decrease to 32% of GDP next year and to 30% of GDP in 2019. Under the EU criteria for euro adoption, the government debt should not exceed 60%. In absolute terms, the debt should be falling as well.

According to the convergence programme, the share of the government debt in GDP should be decreasing in the years to come. From 36% of GDP planned for this year it should drop to 35.3% in 2018.

In its new forecast presented on Thursday, the CNB improved the GDP growth estimate to 3.6% for this year and 3.2% for next year from May's prediction of 2.9% growth in 2017 and 2.8% rise in 2018.

CTK HOUSEHOLDS DO NOT FEAR TO SPEND – ANALYSTS – 4.8.

Czech households do not fear to spend, which is reflected in June's growth in retail sales, analysts addressed by CTK said, they ascribe the accelerating growth in the sales to the strong labour market, low unemployment and faster wage growth.

Growing fuel sales also show the satisfactory situation of Czech households and rising interest in travelling during the

main tourist season, said UniCredit Bank chief economist Pavel Sobisek.

CTK NO. OF SELF-EMPLOYED GROWS BY 11,000 TO 992,000 IN H1 – 7.8.

The number of entrepreneurs who actually make a living from self-employment in the CR increased by 11,000 to 992,000 in the first half of this year, according to data from the Czech Social Security Administration (CSSZ).

Last year, the number of self-employed people rose by 5,000. "The report follows the trend from the end of the last two years when the number of self-employed grew," Association of Small and Medium-Sized Enterprises head Karel Havlicek told CTK.

The reason is good purchasing power of consumers, appetite of companies to invest in development, condition of the neighbouring export markets, willingness of banks to finance small entrepreneurs and low interest rates, he noted.

Havlicek is pleased that young people are again willing to do business and that many start-up projects are emerging.

The highest number of self-employed people is registered in Prague, with 173,000 entrepreneurs, and in the Central Bohemia and South Moravia regions, with 136,000 and 110,000 entrepreneurs, respectively.

The number of those who perform self-employment as their main gainful activity increased by 7,000 to 585,000. The number of those who run their own business just as a subsidiary source of income rose by 3,000 to 407,000.

The number of self-employed who pay advances for social security went up by 9,000 to 686,000, while the number of those with health insurance payments fell by 1,000 to 90,000. In no other EU country have self-employed such a big influence on the economy as in the CR.

Small enterprises with one to 9 employees account for more than 95% of the total number of businesses in the CR. Together they employ more than one third of all employees in the country.

No. of self-employed people

	Total
December 2004	946,000
December 2005	911,000
December 2006	904,000
December 2007	918,000
December 2008	938,000
December 2009	956,000
December 2010	977,000
December 2011	1,002,000
December 2012	994,000
December 2013	977,000
December 2014	972,000
December 2015	976,000
December 2016	981,000
June 2017	992,000

CTK VOLUME OF MORTGAGE LOANS UP 11% TO CZK113BN IN H1 –

7.8.

Domestic banks provided 55,712 mortgage loans for CZK113.1bn in total to individuals in the first half of this year, a 4% year-on-year growth in number and an 11% rise in volume, according to data released on the Regional Development Ministry's website.

The ministry's data are based on information from 9 banks which represent 90% of the Czech mortgage market.

In 2016, banks provided a record 112,000 mortgage loans for CZK218.3bn.

The current data indicate that another record could be reached this year, said Fincentrum analyst Josef Rajdl.

The price of mortgage loans is growing this year, the average interest rate on these loans increased to 2.04% in June, according to Hypoindex, and hit the highest level since January 2016. Last year in December, the rate was at record-low 1.77%.

The law on consumer loans came in force in December and large banks announced growth in interest rates in this connection.

"The first half of this year was unexpectedly strong but we will probably not see a new record on the mortgage market," Jiri Patak, director of consulting company Chytry Honza, told CTK.

At the end of this year, he expects the impact of the new law on consumer loans, tougher recommendations of the CNB and higher interest rates.

For these reasons, clients were in a hurry to get a mortgage loan by the end of the year. Thanks to this, the last quarter of 2016 was extremely strong in this respect.

CTK CNB'S FOREX RESERVES IN EUROS DOWN IN JULY M-O-M –

8.8.

Foreign currency reserves of the CNB decreased in July by EUR425mn to EUR124.3bn however, they nearly doubled from EUR68.4bn at the end of July last year, according to data published by the CNB today.

In dollars, the reserves increased both on the month and on the year, and in crowns, they were lower compared to June but higher compared to July last year.

The end of the forex intervention regime has a lion's share in a drop in the central bank's forex reserves in crowns to the lowest level since the end of March this year in July, Cyrus analyst Lukas Kovanda told CTK.

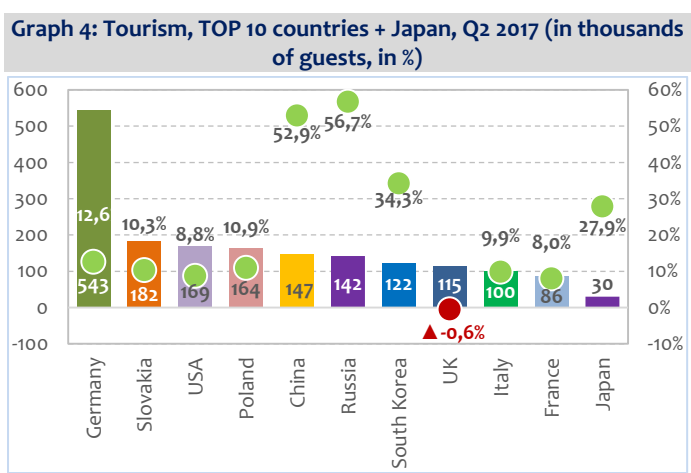
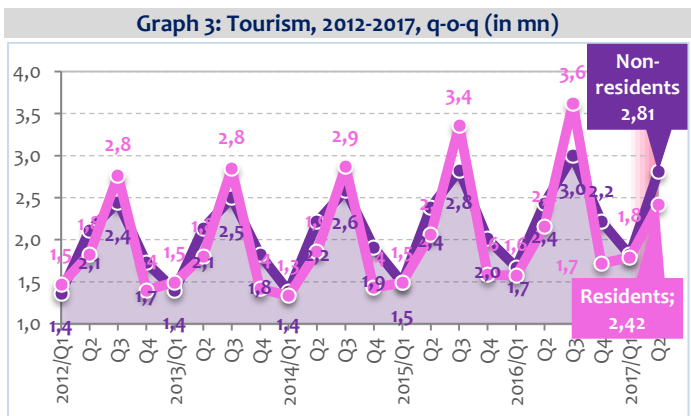
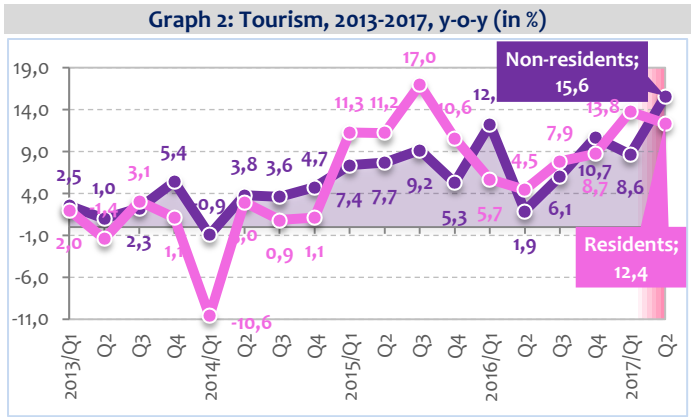
In euros, the volume of reserves basically stagnated for the fourth straight month, while the forex reserves in dollars kept rising, said Kovanda. This shows that changes in the crown- and dollar-denominated reserves are a result of the exchange rate reappraisal. After the central lift a cap on the currency in April this year, the crown was firming to the euro as well as the dollar. Still, however, the forex reserves make up nearly 70% of the country's gross domestic product, ranking among the highest in the world, said Kovanda.

CNB governor Jiri Rusnok told CTK at the end of June that the central bank, within its new strategy, will be investing some of its forex reserves trying to raise their yields. It can, for instance, convert part of the reserves from less-profitable euros into dollars or purchase quality bonds. One of the

reasons is the effort to cut its cumulative losses from the reappraisal of the reserves in connection with the crown's gains after the bank quit its forex intervention regime. Rusnok pointed out these are options the bank is considering, never releasing any information on such steps beforehand.

TOURISM – 8. 8.

Q2 2017, the number of guests in collective accommodation establishments increased by 14.1% y-o-y and the number of overnight stays by 12.6%. Occupancy has been continuously growing 4 years in row.

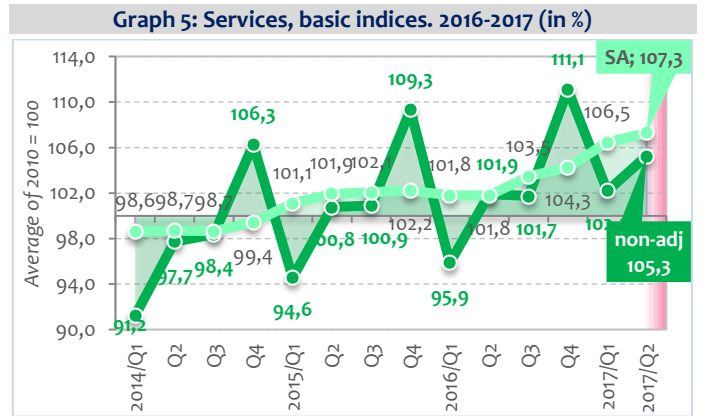


The highest number of foreign guests (by nationality) came as usual from Germany. Germans accounted for 1/5 of foreign guests at surveyed establishments (543,000). Compared to the same period of previous year their number went up by 12.6%. The 2nd largest group of foreign guests was visitors from Slovakia (182,000) in Q2 with y-o-y increase by 10.3%. The 3rd place was taken by the USA (169,000, 8.8%, y-o-y). A better-than-average interest in accommodation in the

surveyed establishments showed guests from China (+52.9%) and from Russia (+56.7%). From important incoming countries there was a slight decrease only for the UK by 0.6%. The higher interest in the CR was shown by tourism from Spain by 25.8%, Thai-wan by 25.3% or from India by 47.7%.

SERVICES – 8. 8.

In the Q2 2017, CoP SA sales in services increased by 0.8%, q-o-q. CoP CE sales increased by 5.4%, y-o-y; non-adj sales increased by 3.3%, y-o-y.



OFFICE OF THE GOVERNMENT OF THE CR: MUNICIPALITIES WILL RECEIVE SHARE OF VAT AND INCOME TAX – 8. 8.

The Office of the Government of the CR adopted a draft decree on the share of individual municipalities in the specified percentages of the national gross income from value added tax and income tax. The material submitted by the Ministry of Finance of the CR contains a proposal which, based on the updating of the statistical data, sets for the next period the percentages of each municipality's share on the national revenues from the shared taxes.

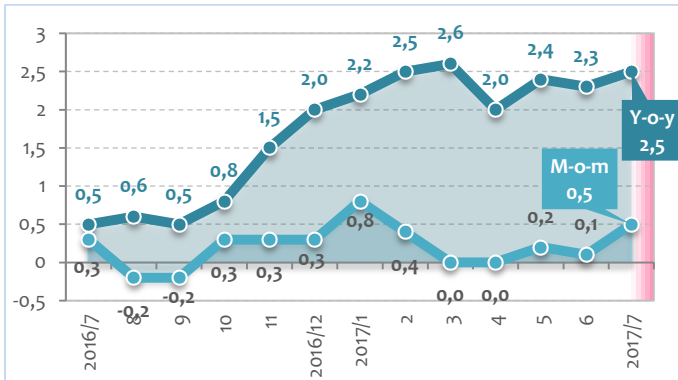
IMPER: OVER 1.872 MN FIRMS FOUNDED IN CR, 573,000 IN SLOVAKIA – 9. 8.

Over 1.872 mn economic entities have been founded in the CR since 1993. Some 64% of them were formed by individuals, 21% by limited liability companies, and 1% by joint-stock companies. A total of 573,000 entities were founded in Slovakia in the period - some 58% of individuals, 30% limited liability companies, 1% of joint-stock companies, and 11% of other kinds of business. This stems from data published by Imper CZ. Both Czech and Slovak entrepreneurs focus the most in wholesale and retail (23% each). This segment is followed by professional, scientific and technology activities.

PRICE INDICES CONSUMER – 9. 8.

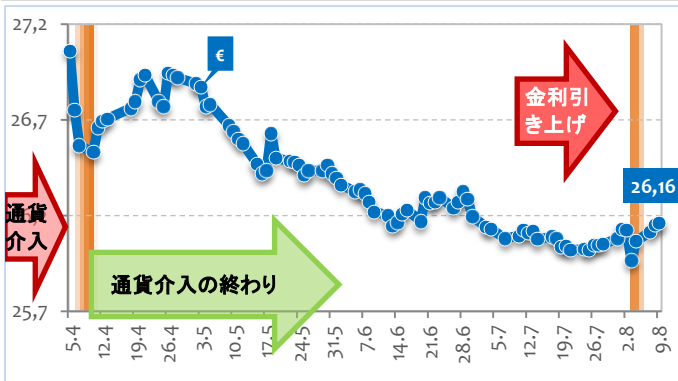
Consumer prices in July rose compared with June by 0.5%. This development was primarily due to the growth of prices in 'recreation and culture' and further in 'food and non-alcoholic beverages' and in 'alcoholic beverages and tobacco'. The y-o-y growth of consumer prices accelerated to 2.5% from 2.3% in June.

Graph 6: Consumer prices Index, 2016 – 2017 (in %)

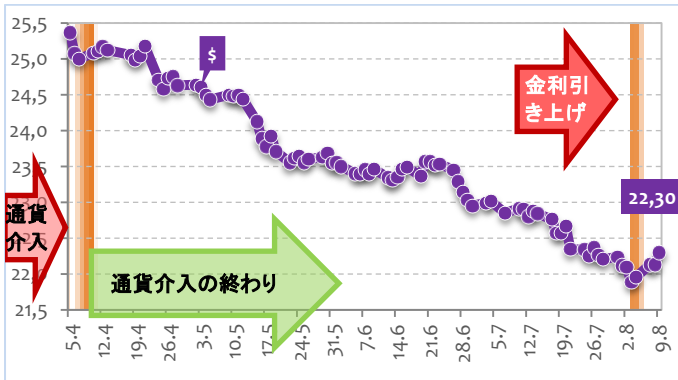


CZK vs EURO⁶, US DOLLAR⁷, YEN – 9. 8.

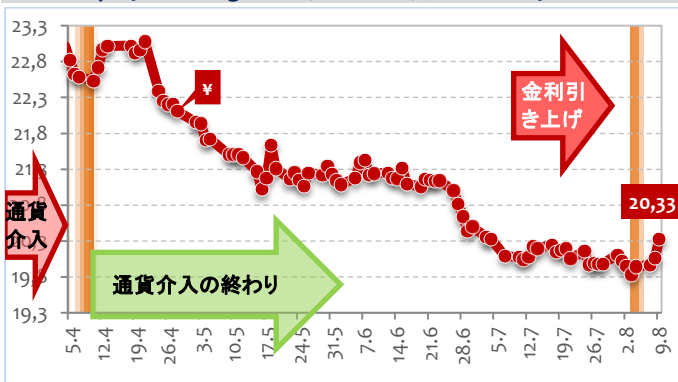
Graph 7: Exchange rates, CZK/€, 5. 4. 2017 – 9. 8. 2017



Graph 8: Exchange rates, CZK/\$, 5. 4. 2017 – 9. 8. 2017



Graph 9: Exchange rates, CZK/100¥, 5. 4. 2017 – 9. 8. 2017



AGRICULTURE & ENVIRONMENT

NO. OF BOARS TESTING POSITIVE FOR ASF GROWS BY FIVE FROM TUE – 4.8.

The number of wild boars testing positive for African swine fever (ASF) has increased to 77 this week, with 132 dead boars found in the infected zone in the Zlin Region since the infection broke out in the country at the end of June, the State Veterinary Administration (SVS) said.

Results of four tests are not yet available, SVS's Petr Majer told CTK today.

Since July 17, 1,290 wild boars have been killed by huntsmen in the intensive hunting area in the region and neighbouring areas, Majer said. The state ordered intensive hunting in an effort to prevent the disease from spreading. ASF was found in none of the animals outside the infected zone.

Workers started setting up an electric fence - nearly 12 km in length - around the infected zone today, Vlastimil Kamir, owner of a company in charge of the activity, told CTK. It will cost some CZK1.2m to build the fence, he said.

Zlin Region governor Jiri Cunek declared a state of danger in the region on Monday.

People with pets are not allowed to enter the ASF-infected zone, if they do so they are facing penalties.

Farmers are banned from harvesting crops on 115.5 hectares of land.

The first two dead boars that later tested positive for ASF were found on the outskirts of Zlin on June 21-22. ASF is not dangerous to humans.

SFŽP TO DIVIDE CZK240Mn IN THE NEXT ROUND OF THE PROGRAMME ENTITLED DEŠŤOVKA – 8.8.

The State Environmental Fund of the CR (SFŽP) and the ministry of environment of the CR have announced the second round of the subsidy programme Dešťovka for use of rainwater and wastewater in households. Reception of requests will take place electronically from September 7, 2017. SFŽP will divide CZK240mn between five thousand households at minimum. One household may receive up to CZK105,000.

LABOUR & SOCIAL & HEALTH

UNEMPLOYMENT SLIGHTLY GROWS IN JUNE DUE TO SCHOOL GRADUATES – 4.8.

Unemployment in the CR probably grew moderately in July - to 4.1% from June's 4%, according to estimates of analysts addressed by CTK, they say that not a worse economic situation but the inflow of fresh school graduates to employment offices is the reason.

The Employment Office will release unemployment data for July on Tuesday, August 8.

"Expansion of the Czech economy is backed by low unemployment. We expect it to grow only a bit in July due to the arrival of fresh school graduates in the labour market," said Raiffeisenbank analyst Monika Junicke, voicing the opinion of many others as well.

⁶ €: (€) is the official currency of the eurozone, which consists of 19 of the 28 member states of the European Union

⁷ USD: \$, USD, the United States dollar is the official currency of the United States and its overseas territories. It is the currency most used in international transactions and is the world's most dominant reserve currency.

Cyrus chief economist Lukas Kovanda also believes that the expected growth in the number of unemployed is certainly not the manifestation of deteriorating situation on the labour market.

"Moderate growth in unemployment is caused by the regular registration of part of teachers and other school staff in the Employment Office's files and also by a moderately lower staff-hiring activity of companies in the summer season due to company holidays," he explained.

Company ACZKenta analyst Miroslav Novak pointed at the fact that very low unemployment and thus also a lack of job applicants is still a problem for many companies across the CR.

"The situation will not improve in this respect. It has to be repeated that the current situation on the labour market is very favourable for faster wage growth," he noted.

CTK CZECH WORKING PRISONERS TO GET LARGE PAY RISE – 5.8.

The Czech Justice Ministry wants to rise the salaries of working prisoners by several thousand crowns, but they will have to save a much higher proportion of the sum for the time after their release from prison, Czech Radio (CR) said today.

The prisoners with secondary education are to have their salaries raised by 2,000 crowns from the current 9,000 crowns a month, CR said, citing a prepared ministerial decree that is to take effect next April.

Previously, the salaries were increased in 2000.

The remuneration depends on the type of the work and attained education.

A prisoner with elementary education now receives 4500 crowns, the one with vocational training 6750 crowns and those with secondary education 9000 crowns.

"The prisoners without professional skills will receive 1000 crowns more, those with the vocational training 1500 more and those with secondary education 2000 more," Jakub Riman, from the Justice Ministry press department, said.

In addition, the fourth category of remuneration for the prisoners with higher education will be created.

Under the planned decree, the prisoners are to receive 13,500 crowns.

The remuneration is to be increased to all working prisoners, irrespective of whether they work for the government or private companies.

On the other hand, the proportion of the money the prisoners must save will rise from the current 2% to 11%.

For the time after their release from prison, they will be newly able to save maximally up to 35,000 crowns, while now it is only 2000 crowns.

A part of the salary is used to cover the costs of the execution of the prison term and maintenance.

At the close of 2016, over one half of the 15,000 prisoners who are able to work really did so.

Due to the current shortage of labour, private companies are interested in prisoners' work.

CTK TENS OF THOUSANDS OF CZECH CHILDREN AFFLICTED BY POVERTY – PRESS – 5.8.

The CR has one of the lowest poverty levels in the EU, but still poverty affects the lives of tens of thousands of children in it, daily Pravo writes today, citing the statistical figures.

According to a uniform European methodology, 9.7% of all people in the CR were threatened with poverty in 2016, Pravo writes.

Roughly one-seventh of the persons under 15 or 247,000 people were jeopardised by income poverty.

In the reality, many more children are affected by distress, material insufficiency and arising limitations in their lives, Pravo writes.

There not only "the statistical poor" as in the case of the families with the parents whose income per head is under 60% of the medium salary or 10,691 crowns a month, it adds.

For a lone parent with a child under 13, the poverty line is 13,898, for two parents with two children, it is 22,450 crowns a month.

However, there are also children to whom parents cannot afford to pay the clothes as needed, meat every other day, leisure time clubs, sports equipment or their studies, Pravo writes.

"This is exemplified by the mothers who flee their violent partner, the children in the families of the jobless or of lone mothers as well as the children living along with their mothers in asylum centers," social care expert Zdena Prokopova, from the ROSA group which helps the victims of domestic violence, is quoted as saying.

In the CR, there are over 178,000 children in one-parent families. According to estimates, around 30,000 children face problems because one of their parents is reluctant to pay the maintenance.

The debts arisen from this failure to pay maintenance for children in incomplete families have reached roughly ten bn crowns in total, Pravo writes.

Labour and Social Affairs Minister Michaela Marksova (Social Democrats, CSSD) has also confirmed that there is the problem of poor children in the CR, Pravo writes.

Without the current welfare system, it would be even worse, she said.

"Due to the material or financial insufficiency, parents are often unable to pay lunches at schools and in kindergartens," Marksova said.

The ministry has prepared the programme "Food Aid to Children in Serious Social Distress" within the operational programme Food and Material Aid, which has been joined by eight Czech regions, Pravo writes.

In the 2017-2018 school-year, almost 10,000 children from poor families will have free food there, it adds.

The aid by means of free food in school canteens and kindergartens is for children between three and 15 whose parents are paid material distress benefits for at least three months, Pravo writes.

CTK HEALTH FEES FOR CZECH PATIENTS MAY BE REINSTATED – PRESS – 7.8.

Most Czech parties, including Andrej Babis's ANO, the favourite of the forthcoming October general election, are

for the reintroduction of fees for the stay in hospital, the idea only rejected by the Social Democrats (CSSD) and Communists (KSCM), daily Hospodarske noviny (HN) writes today.

The Christian Democrats (KDU-CSL) and the opposition TOP 09 are speaking in a similar way.

The Constitutional Court cancelled the charges for hospitalisation in 2013.

The patients' cash fees in health care were introduced by the right-wing government of Mirek Topolánek (Civic Democrats, ODS) in 2008.

The current centre-left government of the CSSD, ANO and the KDU-CSL abolished the fee per prescription and per visit to a doctor as of January 2015, in harmony with its policy statement. It did not reintroduce the fee per day in hospital either. Only the fee for emergency ward is preserved.

The government also has rejected the payment for "above-standard treatment."

However, this might be changed by the election, too.

The idea is acceptable for ANO, the Christian Democrats, TOP 09 and the opposition Civic Democratic Party (ODS).

Above-standard treatment was introduced by former health minister Leos Heger (TOP 09) in 2012.

Along with its renewal, it would be good if patients could pay "one or two hundred crowns more" for being able to consult a specialist doctor without any recommendation from their general practitioner, Heger said.

At present, the payment of 90 crowns for emergency treatment is the only remaining fee.

However, the current rule that the fee is returned to the patients whose health condition is as serious as to be hospitalised afterwards should be maintained, he added.

CIA REGIOJET RECRUITING ENGINE-DRIVERS, WILL RAISE THEIR SALARIES BY UP TO 14 % - 9.8.

RegioJet has prepared a new model of remuneration for engine-drivers. The company will raise their basic salaries by 12 to 14 %. Engine-drivers also have the option of flexibly choosing the length of their working week reaching 40 or 36 hours. The transporter is currently preparing to recruit 15 to 20 more engine-drivers, who will receive a one-time recruitment contribution of CZK50,000. The company is planning on increasing connections to Bratislava and will newly go to Opava.

INDUSTRY & ENERGY

CTK TRANSPORT OF REST OF CZECH DIESEL OIL FROM KRAILLING HELD UP - 4.8.

The transport of the rest of Czech diesel oil worth some CZK100mn from a warehouse of bankrupt company Viktoriagruppe in Krailling, Germany, is being held up, Pavel Svagr, chairman of the Administration of State Material Reserves (SSHR), said today.

Another train to the CR is to be dispatched at the end of August at the earliest, Svagr told CTK after today's talks with Krailling Oils Development, new owner of the warehouse.

Regular diesel oil shipments ended early in July and since that time, there have been no trains to carry diesel oil to the CR.

"The original assumption was that another train could be dispatched next Thursday, however, at today's talks we have

come to a conclusion that there will be no such train (next week)," said Svagr.

"The reason is that employees who are working on the transfer (of diesel oil) on the German side are taking a holiday and so ... the train cannot be loaded next week," Svagr said.

The CR stored diesel oil worth some CZK1.2bn in Krailling but had been unable to retrieve it for almost two years since Viktoriagruppe was declared bankrupt in 2015.

In July last year, SSHR, Krailling Oils Development and an insolvency administration signed a contract based on which the country got its diesel oil back.

In mid-July, Svagr said 55 trains transported 90% of diesel oil to the country, with six trains yet to be dispatched. A small amount of diesel oil that remains in the tanks in Krailling will be hard to get back, Svagr said then.

Katerina Radostova, executive of Krailling Oils Development, told CTK this week that the company and SSHR are dealing with an issue of cloudy diesel oil that was found in one of the 22 tanks in the warehouse in the spring.

Svagr said today cloudy diesel oil could be transported to the CR, hypothetically, with Krailling Oils Development to pay the cost of the transport. However, Radostova does not agree with it. This is not German diesel oil, and so there is no reason why the German company should cover the costs, Radostova told CTK today.

The fuel transport should cost the state no more than CZK60m in total.

The CR can store part of its diesel oil reserves in Germany under an amendment to the agreement on storing of specific reserves dated 2004. The amendment was signed by SSHR in 2010.

CTK CEZ'S H1 NET PROFIT SEEN RISING TO CZK15-16BN Y-O-Y - 6.8.

CEZ power producer saw H1 net profit grow to CZK15-16bn in annual terms because of an extraordinary income from its transactions, analysts said in a CTK poll.

The official results for the Jan-June period and the second quarter will be announced on August 8.

Net profit reached CZK13.8bn at the end of June last year, and this year will see a rise to CZK15-16bn, most analysts said.

Sales will be more or less the same as last year - CZK98.6bn, with some analysts expecting them to be slightly above CZK100bn.

"We predict an annual hike of net profit of some 16% in H1 thanks to CZK3.7bn worth of revenue from a sale of MOL's shares and an income of more than CZK1bn from a sale of the residential housing portfolio in (Prague's district of) Pisnice," said Ceska sporitelna analyst Petr Bartek.

CEZ CEO Daniel Benes said in May CEZ estimated the sale of MOL's shares and related transactions would contribute CZK4.5bn to the book net profit this year.

More than 700 flats in Pisnice were sold to CIB Group for some CZK1.3bn this year. The deal was criticised by tenants and the local town hall as well as by Lubomir Zaoralek, Social Democrat (CSSD) leader for the general election this autumn. EBITDA (earnings before interest, taxes, depreciation and amortisation), on the other hand, posted a drop compared to the first six months last year, the reason being a further drop in electricity prices on the market, analysts pointed out.

Bartek said EBITDA would reach CZK31bn in H1 this year, about 7% less in annual terms.

J&T Banka analyst Bohumil Trampota said CEZ set earlier the targets for this year's net profit adjusted for one-off effects and EBITDA at CZK17bn and CZK52bn, respectively. "We think the CEZ management will confirm these targets," he noted. BH Securities analyst Martin Vlcek said a recent fire in the black-coal-fired power plant Detmarovice will not influence the company's performance, as it occurred after the end of H1.

"Still, however, its impact will not be significant, it will rather be a one-off quarterly effect within the second half-yearly period," Vlcek said.

For investors, CEZ's performance that is not going to bring any big surprises is posing a lower risk than the question of possible construction of new nuclear reactors in the CR, said Vlcek.

"The construction would raise capital expenditures, which might threaten dividend (payout) or increase debts of the company if the new risky project of building new reactor units were not hived off (into a separate entity)," said Vlcek. CEZ, the largest Czech energy utility, is about 70% owned by the state via the Finance Ministry.

CTK VÍTKOVICE POWER ENGINEERING TO UNDERGO BANKRUPTCY – COURT – 7.8.

Company Vítkovice Power Engineering (VPE) will undergo bankruptcy, a court has decided on bankruptcy instead of reorganisation on the proposal of the company's board of directors, according to the court ruling made public in the insolvency register.

Parent company Vítkovice a.s. has distanced itself from the VPE board's proposal.

In reorganisation, the company would operate further according to the reorganisation plan approved by the court and creditors. In bankruptcy, its assets should be sold as soon as possible and the proceeds would be distributed among the creditors.

"One of the most important effects of bankruptcy declaration is transfer of the right to handle the assets to the insolvency administrator since the moment the ruling on the change of reorganisation to bankruptcy is released, which basically means that now the insolvency administrator has to take over the management of the debtor's company. For example, in relation to employees, it acts as their employer," insolvency administrator David Vandrovec answered to CTK's question in a press release.

He has been analysing the situation and evaluating it since the moment when the board lodged the bankruptcy petition. Together with the team of advisers, Vandrovec is now looking for the most suitable course of action to satisfy all creditors.

He considers fast prevention of creation of further losses and claims as the most important duty, Vandrovec added.

According to available information, VPE now generates losses in the order of tens of mns of crowns a month.

VPE ranked among the most important members of engineering group Vítkovice Machinery Group (VMG) of Ostrava-based entrepreneur Jan Svetlik. VPE has 800 employees.

It has been in insolvency since August 2016 and the creditors allowed its reorganisation in November. The deadline for the management to present the reorganisation plan was to expire on August 14.

Board members Petr Krupa and Marian Knapek submitted to the court a proposal for bankruptcy instead.

They said that without financial aid and real support from the investor, which was to be the parent company, Vítkovice, a.s., resolving insolvency through reorganisation was not a realistic option.

The parent company has distanced itself from this proposal. It said that the parent company was never to be the investor for VPE but that it would provide support to the company.

VMG spokeswoman Eva Kijonkova earlier told CTK that bankruptcy endangers entry of investors.

"At this moment, we have no other opinion than the one we have presented. Bankruptcy in our opinion raises the risk of smaller compensation for creditors," Kijonkova said today.

VPE, a company constructing and supplying power plants, got into financial trouble, among other things, because of problems accompanying the construction of brown-coal-fired power plant Yunus Emre in Turkey which has not yet started operation.

Creditors have lodged claims surpassing CZK71bn but Vandrovec did not acknowledge many of them.

VMG consists of more than 20 companies employing nearly 4,000 people altogether.

Besides VPE, companies Vítkovice Gearworks, Vítkovice Envi and Vítkovice Revmont have been declared insolvent.

ČIA TA ČR: VUT AND ASIO NEW HAVE DEVELOPED EQUIPMENT FOR WATER RECYCLING – 7.8.

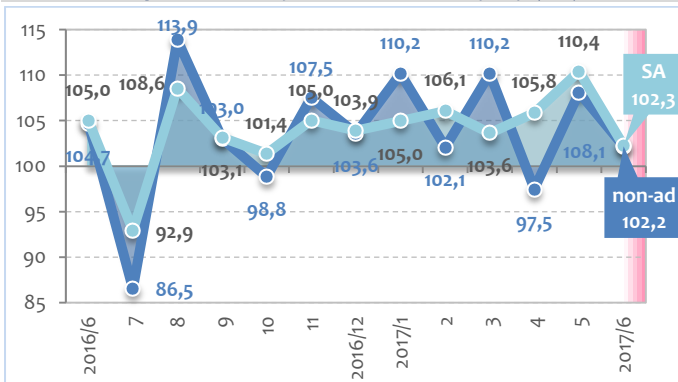
Researchers from the Brno University of Technology (VUT) have in cooperation with company ASIO NEW (Brno company) developed equipment that is able to clean gray water in buildings for further use. This was announced by the Technology Agency of the CR (TA ČR), according to which the recycling equipment is one of the research projects that it supported with a subsidy of CZK3.9mn.

INDUSTRY – 7.8.

In June 2017, SA industrial production decreased by 3.8%, m-o-m. In the y-o-y comparison, CoP industrial production increased by 2.2%. The value of new orders increased by 4.8%, y-o-y.

The following contributed the most to the y-o-y increase of industrial production: manufacture of motor vehicles, trailers and semi-trailers (+0.7 p.p., +3.3%), manufacture of rubber and plastic products (+0.5 p.p., +7.7%), and manufacture of fabricated metal products (+0.4 p.p., +4.1%). Industrial production decreased in electricity, gas, steam and air conditioning supply (▲0.6 p.p., ▲6.5%), manufacture of other transport equipment (▲0.5 p.p., ▲25.2%), and mining and quarrying (▲0.4 p.p., ▲16.5%).

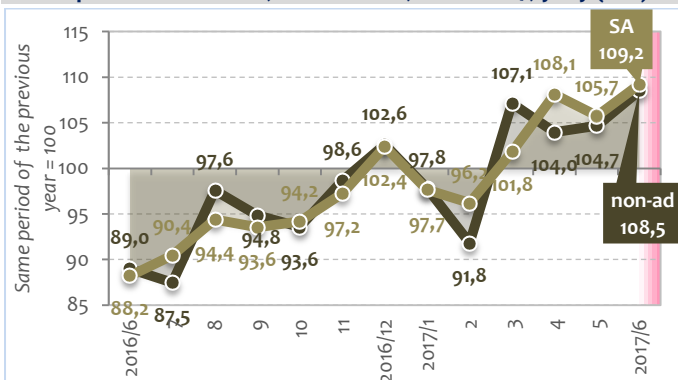
Graph 10: Industry, CoP, 2016 – 2017, y-o-y (in%)



CONSTRUCTION – 7.8.

In June 2017 SA construction output increased by 8.5% y-o-y, in real terms; the non-adj output rose by 9.2%. The planning and building control authorities granted by 0.1% less building permits, y-o-y, and the approximate value of permitted constructions grew by 21.4%, y-o-y.

Graph 11: Construction, basic indices, 2016 – 2017, y-o-y (in %)



The number of started dwellings increased by 26.2%, y-o-y, and the number of completed dwellings jumped up by 28.5%, y-o-y.

CIA TA ČR: THE ACTION PLAN IS INTENDED TO ENSURE

APPLICATION OF RESEARCH IN PRACTICE – 9.8.

The Technological Agency of the CR (TA ČR) and the Confederation of Industry of the CR have signed an action plan for the following period.

More specifically, this cooperation will, among other things, consist in the area of preparation of programmes for support of applied research for the needs of companies, in higher awareness about the options for using state support for innovations and international cooperation in research.

The aim is to ensure efficient cooperation between the research and the commercial sector and to ensure the highest possible application of results of research in practice.

NEW DUKOVANY OPERATING LICENSES EXPECTED BY END OF YEAR – 9.8.

New operating licences for the Dukovany-3 and 4 nuclear reactors should be given by the end of the year, the deputy

⁸ CoP: constant prices are used to measure the true growth of a series, i.e. adjusting for the effects of price inflation.

⁹ SA: seasonally adjusted, Seasonal adjustment is a statistical method for removing the seasonal component of a time series that exhibits a seasonal pattern, which allows to analyse the trend of a time series independently of the seasonal components.

¹⁰ M-o-m: month on month

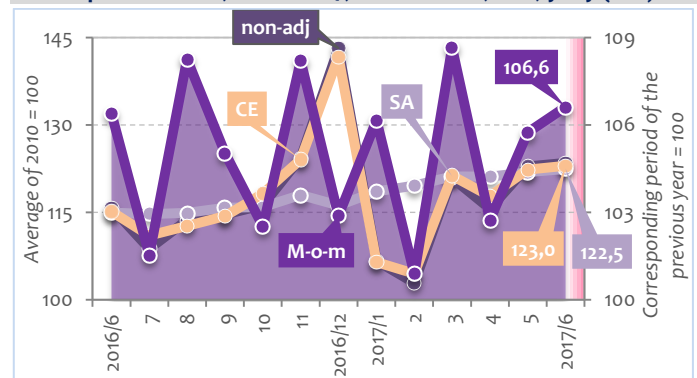
board chairman and finance director of ČEZ has announced. Martin Novák said that the applications had already been submitted to the State office for Nuclear Safety (SÚJB). A new unlimited license for the second unit at Dukovany was granted by the office at the end of June. Dukovany is the oldest Czech nuclear reactor with the four units completed between 1985 and 1987. They were originally expected to be operational for 30 years.

TRADE & TRANSPORTATION

RETAIL TRADE – 4.8.

In June 2017, CoP⁸ SA⁹ sales in retail trade increased by 0.7%, m-o-m¹⁰. CE¹¹ sales increased by 6.6%, y-o-y¹², the same as non-adj¹³.

Graph 12: Retail¹⁴, 2016 – 2017, basic indices, CoP, y-o-y (in %)



CZECH RAILWAYS ALLOW PAYMENTS BY CREDIT CARD IN SELECTED TRAINS AS OF AUGUST – 5.8.

On some Czech Railways trains, passengers will be able to pay for a card ticket from August. The service will be available first in pendolinas.

Bohumín (SuperCity) introduces card terminal during August and later Břeclav (RailJet), followed by Prague, Cheb and other stations (with EuroCity, InterCity and other trains of higher quality).

CTK JUNE SLOWDOWN IN EXPORTS CAUSED BY LOWER CAR EXPORTS – ANALYSTS – 7.8.

A slowdown in Czech exports in June was mainly due to a drop in exports of motor vehicles, analysts polled by CTK have agreed.

Czech statisticians said today that exports saw an annual hike of 4.7% and imports grew by 5.5% in June.

Czech exports crossed the level of CZK300bn for the second straight month.

"The June results are not as impressive as the excellent data from May, however, they are still implying that the economic situation abroad is improving and domestic demand is growing," said Deloitte chief economist David Marek.

According to the Exporters Association, the export performance remains very high in spite of a number of unfavourable effects such as a lack of workers on the labour

¹¹ CE: adjusted for calendar effects, the pre-adjustment for calendar effects involves removing from the time series calendar effects such as working days/trading days effect, leap year effect and moving holidays effects.

¹² Y-o-y: year on year

¹³ Non-adj: non-adjusted

¹⁴ except of motor vehicles and motorcycles

market. The high performance is proved by the annual comparison of the first six-month period. Exports rose by 6.1% during the period. Imports, however, increased by 7.6% over the period, which is a trend the exporters are unable to cope with, Otto Danek, deputy chairman of the association, has said.

The months to come will be affected by a firming crown and the ongoing shortage of labour predominantly in manufacturing, he added.

Exports slowed down to 4.7% in June, the main reason being a 1% drop in exports of motor vehicles on the month. Surplus in trade in motor vehicles decreased because of higher car imports, said Marketa Sichtarova of Next Finance.

Trade with EU countries registered a surplus of CZK60.3bn, which was an annual increase of CZK3.1bn. Trade with non-EU countries ended in a deficit of CZK40.2bn, up CZK4.8bn, with China being a major contributor to the negative result, as the CR has a deficit of CZK24.1bn in trade with this country, Raiffeisenbank analyst Milan Frydrych said.

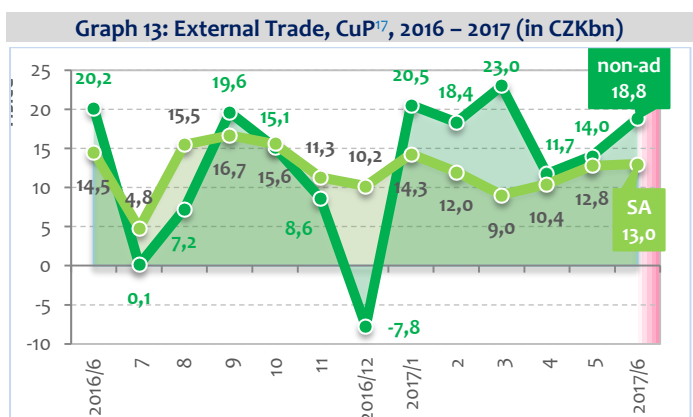
Czech foreign trade ran a CZK18.8bn surplus in June, a drop of CZK1.3bn y-o-y, with the Jan-June surplus going down by CZK17bn to CZK106.5bn in annual comparison, statisticians said.

EXTERNAL TRADE – 7.8.

According to preliminary data, in June 2017 the external trade balance in goods ended in a surplus of CZK18.8bn¹⁵, which was by CZK1.3bn lower, y-o-y.

The total NC¹⁶ trade balance was unfavourably influenced mainly by a larger deficit of balance in 'crude petroleum and natural gas' and 'basic metals' by CZK4.5bn and CZK2.2bn, respectively, y-o-y. Surplus of balance in 'motor vehicles' fell by CZK0.5bn due to bigger imports.

A lower deficit of surplus in 'coke and refined petroleum products' by CZK3.3bn brought the main positive effect on the total balance. Surplus of balance in 'electrical equipment' and 'machinery and equipment' rose by CZK1.4bn and CZK1.3bn, respectively.



In June 2017 the trade balance with the EU28¹⁸ Member States ended in a surplus of CZK60.4bn, and thus it was by CZK3.1bn higher, y-o-y. A deficit of trade with the non-EU

¹⁵ bn: bn

¹⁶ National Concept: the national concept of external trade reflects export and import performance of the Czech economy, i.e. the external trade balance of the CR as well. It measures real trade in goods carried out between Czech and foreign entities, i.e. a change of ownership between residents and non-residents.

countries increased by CZK4.8bn to reach the amount of CZK40.2bn.

Compared to May 2017 the NC's SA exports and imports fell by 4.1% and 4.4% respectively. The development trend shows stagnating exports and decreasing imports (▲1.0%).

Compared to the same month of 2016, exports and imports rose by 4.7% (to CZK310.4bn) and by 5.5% (to CZK291.6bn), respectively.

MINISTRIES PLAN BIGGEST CENTRAL PURCHASE IN CZECH HISTORY – PRESS – 8.8.

Up to ten ministers are to buy cars together within a giant contract in order to save finances and eliminate possible corruption, which will be the biggest central purchase in history of the CR, daily Lidove noviny (LN) writes today.

The ministries want to buy 1431 cars for themselves and subordinated organisations, 130 offices in total, in 2018 and 2019. The overall price is estimated at more than 800 mn crowns.

It is unprecedented that so many ministries are able to agree on a joint purchase regardless of which party their heads represent, LN adds.

"All ten sectors have approved the contract documentation, now the approval process before putting up the tender is underway within the Finance Ministry as the central contracting authority. We will put up the tender in September at the latest," Deputy Finance Minister Tomas Vyhnanek, who is in charge of the "super-tender," told LN.

Only the interior, agriculture, foreign and labour and social affairs ministries will not participate in the joint purchase since they have been negotiating on their own contracts on cars or they have car supplies secured for these years already. They intent to joint the central purchase after these contracts expire, LN adds.

Within the super-tender, cars will be supplied to the ministries of finance, transport, defence, industry and trade, justice, culture, education, health, environment and regional development, LN says.

The order is divided into eight parts. The Finance Ministry will sign a framework contract with the tender winner, while the individual sectors will sign particular contracts on car supplies based on their needs, LN says.

LN also writes that such a joint contract will prevent any preferential treatment in a tender, which happened in the past.

It points to the case of the State Office for Nuclear Safety (SUJB) preparing requirements for new cars that only the Skoda car maker could meet. The office admitted to have done so intentionally since it is used to Skoda cars, LN reported last week.

The state administration is said to prefer Skoda, seated in Mlada Boleslav, central Bohemia, in car tenders in general. However, if such a tender is prepared by many offices

¹⁷ CuP: current (or "nominal") prices for each year are in the value of the currency for that particular year, are influenced by the effect of price inflation.

¹⁸ EU28: 28 member states of the EU, which are party to the founding treaties of the union and thereby subject to the privileges and obligations of membership

together, this considerably limits the possibility to tailor-make conditions for one and only supplier, LN writes.

CIA KBA: ŠKODA VEHICLE REGISTRATIONS IN GERMANY INCREASED TO 112,607 – 8.8.

In the first seven months of the year 2017 ŠKODA vehicle registrations in Germany increased by 2.0 % y-o-y to 112,607. They accounted for 5.4 % of all registrations. In July alone the number of ŠKODA registrations fell 0.8 % y-o-y to 13,770 vehicles.

The brand's market share totaled 4.9 %. This is based on the statistics of the German federal motor transport authority (KBA).

CIA PRAGUE AIRPORT: MODERNISATION OF THE TERMINAL WILL LAST UNTIL THE END OF 2017 – 8.8.

The reconstruction of Terminal 2 at the Václav Havel Airport Prague will, according to a current schedule, be completed by the end of the year 2017. Prague airport spokesperson Marika Janoušková has confirmed this for ČIANEWS, adding that the adjustments will enable building a higher-capacity and more modern central station of security checks. The contractor is OHL ŽS, which presented the cheapest offer in the tender. According to the spokesperson, the resulting price is lower than the expected CZK120m.

MISCELLANEOUS

PRÁVO MOST CZECHS GET UP BEFORE SIX AM – 3. 8.

Over 1/2 of Czechs, some 54%, regularly get up before six in the morning to get to work in time, according to the Profesia.cz agency survey. Compared with the world, this is an unusual high number, only similar to that in the neighbouring Slovakia.

Every 5th Czech gets up between 6 and 7 in the morning and another 14% of them between 7 and 8, it adds.

Only every 16th respondent regularly sleeps until after 8 in the morning. The remaining 6% said they determine their working hours themselves, thanks to which they do not have to get up to go to work.

Many people getting up before 6 even now because the beginning of the working hours has been pushed to later time in recent years. However, Czechs do not only get up so soon not to be late at work, but also because they have to look after their children or home pets before leaving for work. Although especially in large towns, the working time often starts at 8 or 9 in the morning, many people get up for different reasons. These are often those who need to look after their children or walk their dogs. Many people get up due to their favourite pastime activities or entertainment. They may have some physical training or be jogging.

There is also a new phenomenon, especially among young respondents. Many of them prefer to give up a part of their sleep in favour of virtual entertainment. A number of successful businesspeople get up before 6 because they

want to practice their favourite leisure activities for which they have no time left during the day, such as tennis or golf.

CTK ZEMAN TO MEET REGIONAL GOVERNORS ON THURSDAY – 5.8.

President Milos Zeman will meet regional governors on Thursday evening and they will discuss current affairs including pay rises for providers of social services, spokesman Jiri Ovcacek and chairwoman of the Association of Czech Regions Jana Vildumetzova told journalists today.

"During the Thursday meeting of regional governors with Zeman we would like to discuss the current issues which are vital for the regions," Vildumetzova said.

"This means a pay rise for the providers of social services, nurses and bus drivers," she added.

Vildumetzova said the government decrees on the affairs were coming unsystematically, due to which the regions had no time and space to provide for the money reaching the people in time.

"We want to discuss this with Zeman and to know his view," she added.

Zeman met the new board of the Association of Czech Regions in mid-February.

They discussed the financing of the repairs of roads, heritage care and the law on national parks.

Vildumetzova told journalists after the meeting that Zeman had asked the regional governors to support some major construction projects such as the Danube-Oder-Elbe canal.

CTK CZECH POLITICAL PARTIES CLASH OVER WHO SHOULD EXPLOIT LITHIUM RESERVES – 7.8.

The CR has the biggest reserves lithium reserves in Europe (3% of the world's reserves estimated), sited in the north of the country near the German border at Cínovec, with one company, European Metals, an Australian-based company, at the moment having taking the lead in prospecting those reserves and planning their extraction. But some political parties now appear to be discussing whether the state should be taking the lead in exploiting this strategic mineral (ANO, the Communists).

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