

CZECH CAPITAL MARKET REPORT

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2005 was a good year for the Czech capital market. The market was affected by the good results of the domestic economy and its immediate outlook. The solid economic results of the major listed companies, including reports on their acquisition activities and plans, had a positive effect. Stock indices therefore continued on their upward trend for most of the year, reaching historical highs. The market also profited from the absence of major threats on a regional and global scale and the relative stability of the European environment. The still low number of attractive publicly traded stocks remained a negative phenomenon on the domestic market.

The effect of the Czech Republic's accession to the European Union manifested itself fully in 2005. Czech capital market participants began to be able to offer their products and services in other EU member states under the single European licence. Likewise, the Czech capital market was thrown open to foreign entities with registered offices in other EU states. This had the biggest impact on collective investment, with the number of funds and sub-funds offered by foreign collective investment undertakings under the single European licence increasing to 1,025.

Foreign entities' interest in providing investment services also strengthened. The number of entities authorised to provide these services in the Czech Republic under the single European licence more than doubled in 2005. At the year-end, in addition to 51 domestic investment firms, 110 foreign banks and 210 non-banks were authorised to provide investment services in the Czech Republic under the single European licence.

2005 was also successful for trading on the regulated markets. After a three-year hiatus the total trading volume increased, thanks to share trading, which responded to the generally favourable corporate financial results and the growth of the Czech economy. Small investors were also increasingly active. The PX 50 stock exchange index recorded year-on-year growth of 43%, while the PK 30 OTC market index rose by a full 64%.

As in previous years, delisted securities issues outnumbered issues newly admitted to trading on the regulated markets in 2005. The dual listings of Orco Property Group and Central European Media Enterprises¹ were assessed positively. In 2005, however, the Prague Stock Exchange saw no initial public offerings similar to Zentiva the previous year.

A major event which affected the form of the Czech capital market was a June amendment to the Commercial Code introducing the "squeeze-out" principle, i.e. the right of a majority shareholder who owns 90% or more of a company to squeeze out the remaining minority shareholders. With effect from September 2005, squeeze-out is subject to approval by the Czech Securities Commission.

The pension scheme sector, containing 11 pension funds, recorded an 11% increase in planholders to 3.3 million people in 2005. The total volume of planholders' funds reached CZK 112.6 billion at the end of the year, a year-on-year rise of 20%.

In August 2005, the Czech Government decided to integrate financial market supervision into the Czech National Bank as of 1 April 2006. Act No. 57/2006 Coll., on the amendment of acts in connection with the integration of financial market supervision, took effect on this date. Although the Act abolished the Czech Securities Commission and rescinded Article 4 of Act No. 15/1998 Coll., pursuant to which the annual Czech capital market report is compiled, it imposed an obligation on the Czech National Bank to complete and submit such a report for 2005 to the Czech Government and the Chamber of Deputies (the lower house of the Czech Parliament) by 30 September 2006. From 2006 onwards, the Czech National Bank will prepare a financial market supervision report and submit it to the Chamber of Deputies, the Senate and the Government for information.

¹ ORCO is traded in Paris and CME on the NASDAQ in the USA.

The Czech macroeconomic environment in 2005 can be assessed as generally favourable, with no major imbalances. This situation positively stimulated the capital market. Real GDP growth rose significantly (reaching 6.9% in Q4), taking the economy to its potential, non-accelerating inflation level of output at the year-end by the CNB's estimation. Inflation remained low, fluctuating below the 3% inflation target. Higher oil prices fostered a slight rise in inflation at the year-end.

Turning to the CNB's monetary policy, interest rates were lowered three times in early 2005, largely because of a stronger exchange rate and very low inflation pressures. In the second and third quarters of 2005 the key monetary policy rate was held at 1.75%, as the risks to inflation were assessed as balanced. In October 2005, monetary policy rates were raised by 25 basis points, primarily because of cost-push inflationary pressures generated by rising oil prices. However, the effect of the higher energy prices on inflation was counteracted in late 2005 and early 2006 by faster appreciation of the exchange rate², so there was no further tightening of monetary policy. The overall real monetary conditions in cumulative terms were assessed by the CNB as easy in both components (the interest rate and exchange rate components), and they will continue to positively affect economic activity in the near future.³

Monetary policy

The positive economic trend last year was driven chiefly by net exports. For the first time since 1993, annual net exports at current prices were positive (at CZK +58 billion). The negative net exports at constant prices decreased further (to CZK -45 billion). The increased export activity was associated not only with an upswing in investment and export activities in the euro area, but also with the launch of production facilities built with the aid of foreign direct investment. The GDP growth was partly due to household consumption and, at the end of 2005, also to gross capital formation. The contribution of government consumption was neutral. The rapid economic growth also fostered a year-on-year fall in the average unemployment rate from 8.3% to 7.9%.

GDP

The public budgets showed better-than-expected results. In year-on-year terms, the public finance deficit fell to 2.6% of GDP. The total public debt is around 30% of GDP, which is relatively low by European comparison. Financial market indicators did not suggest that the continuing deficit financing of public budgets was affecting the risk premium demanded by investors for Czech government bonds, as yields on long-term Czech government bonds continued to decline, moving in line with euro yields. The interest rate differential between euro-denominated long-term Czech government bonds and comparable German government bonds was stable within the range of +10 to +20 basis points.

Fiscal policy

The current account deficit narrowed markedly to 2.1% of GDP in 2005, thanks mainly to a goods and services trade surplus of 2% of GDP. The income balance, which continues to be driven chiefly by foreign direct investment in the Czech Republic, remained negative. Roughly one-half of the FDI income is, however, reinvested in the Czech Republic. The FDI inflow into the Czech Republic continued into 2005, reaching a relatively high 9% of GDP (CZK 263 billion) thanks to sales of several large enterprises to non-residents. Privatisation accounted for about 40% of the inflow, the remaining part being due to increases in ownership interests, reinvested earnings and the establishment of new foreign-owned corporations.

External balance

The capital market in the Czech Republic and abroad

The developments on the Czech capital market in 2005 can be assessed positively. The total trading volume on the regulated markets in the Czech Republic increased by one-third to CZK 1,581 billion, thus halting the downward trend seen in 2002–2004, when a growing volume of share trading had failed to offset a sharp decline in the volume of bonds traded.

The total trading volume in 2005 was the third-highest since the restoration of the organised securities market in the Czech Republic. The Czech capital market was buoyed by global and regional optimism.

² The koruna appreciated by 6.6% against the euro and by 6.8% against the dollar on average year on year.

³ A more detailed discussion of monetary policy and the effect of the monetary conditions on real activity can be found in the CNB's January and April 2006 Inflation Reports (www.cnb.cz).

Information about the performance of the Czech economy, positive estimates for the period ahead and other macroeconomic information laid the foundations for favourable market development. The market was also supported by an easing of the growth in oil and other commodity prices at the close of the year and the historically low interest rates in the Czech Republic and the EU.

Share trading The volume of share trading on the regulated markets in the Czech Republic more than doubled compared to the previous year, reaching CZK 1,047 billion. The share of the Prague Stock Exchange in total share trading rose further to 99.5%. For the first time ever, the share trading volume broke through CZK 1 trillion (EUR 34.9 billion), putting the PSE almost on a par with the Vienna Stock Exchange (EUR 37.5 billion). Both exchanges far exceeded the Warsaw and Budapest stock exchanges and other markets in the Central European region in terms of liquidity. Share trades organised by RM-System amounted to CZK 5.5 billion.

Bond trading Bond trading on the regulated markets declined again in 2005, falling by 23% to CZK 534 billion, although a possible stagnation of this trend was seen towards the end of the year. The low volumes were due to the low and stable interest rates, the availability and affordability of other forms of financing and the related low supply of new corporate bonds. The fact that domestic institutional investors usually hold bonds to maturity also depressed volumes. Increased activity is likely in the longer term in response to a potential gradual rise in interest rates.

Stock exchange indices The dynamic stock market development in the period under review is confirmed by the share indices. The PSE's PX 50 index gained 43% on the previous year. The PX-D index, which tracks the most liquid shares, saw similar growth. The PK 30 OTC index grew even faster, adding 64%. The growth of the domestic market surpassed the main stock exchange indices in the advanced markets, despite the fact that their growth, too, can be regarded as above-average. For example, the FTSE 100 strengthened by 16.7%, the German DAX by 27.1% and the French CAC by 23.4%. Central European stock exchange indices recorded very dynamic growth, the Austrian ATX gaining 50.1%, the Hungarian BUX 40.1% and the Polish WIG 35.4%. By contrast, the year-on-year changes on U.S. markets were around zero in 2005.

Market capitalisation The rising prices of the shares traded on the Czech regulated markets increased the market capitalisation of the issues traded. In the case of the PSE, capitalisation rose by more than one-third to CZK 1,331 billion at the year-end, while for the stocks traded on RM-System it likewise increased to CZK 918 billion. A considerable decrease in the number of stocks was witnessed at the same time. On the PSE, for instance, the number of issues traded fell by roughly one-third year on year to 39, due among other things to the squeeze-out of minority shareholders and the delisting of shares. However, this did not involve the most important companies in terms of market liquidity.

Issues most traded The most traded issue on the PSE in 2005 was power company ČEZ (CZK 299 billion), followed by Český Telecom (CZK 288 billion) and Komerční banka (CZK 206 billion), which represents a reversal of the top three for 2004. ČEZ shares were also the most traded issue on the RM-System OTC market (CZK 1 billion), followed by Českomoravské doly shares and the Czech Property Investments bond.

The Czech capital market was greatly affected in 2005 by the adoption of an amendment to the Commercial Code permitting squeeze-out, by the preparation of amendments to the Capital Market Undertakings Act and the Act on Collective Investment, and by the decision to integrate financial market supervision.

The key issue as regards financial market supervision was the integration of supervision. On the basis of a resolution of the Czech Government of August 2005, a comprehensive amendment to the original government bill on the integration of financial market supervision was prepared and passed by the Chamber of Deputies at the close of the year (and took effect on 1 April 2006).⁴ The integration of supervision led to the revision of many legal regulations, in particular the Act on the Czech National Bank and the Act on the Czech Securities Commission.⁵

Integration of supervision

The Act on Financial Conglomerates, implementing the EU directive on the supplementary supervision of credit unions, insurance undertakings and investment firms in financial conglomerates into Czech law, was passed in August 2005.⁶ This Act also amended the Capital Market Undertakings Act, the Act on Collective Investment and in particular the Commercial Code, which was revised to include financial collateral arrangements and the much criticised right of "squeeze-out" of minority shareholders by a shareholder who acquires 90% or more of the capital or voting rights of a company. In response to numerous comments, the Czech Parliament soon afterwards passed a further amendment to the Commercial Code which added to the squeeze-out process an assessment of the expert report by the Czech Securities Commission, as in the case of takeover bids. A possible conflict with the Constitution was contested before the Constitutional Court.

Act on Financial Conglomerates

In 2005, due to shortcomings found in the Capital Market Undertakings Act and the Act on Collective Investment and with regard to the need to transpose EU regulations, the Czech Securities Commission and the Ministry of Finance worked together to prepare "technical amendments" to these regulations. These were submitted to the Parliament in July and September 2005.

The amendment to the Capital Market Undertakings Act was aimed at implementing the directive on the prospectus to be published when securities are offered to the public or admitted to trading⁷, and also at completing the implementation of the directive on insider dealing and market manipulation (market abuse).⁸ Further changes were of a technical nature, the most important of which related to the central depository.

Amendment to the Capital Market Undertakings Act

The prospectus issue was also addressed in the European Commission regulation implementing the prospectus directive as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements, effective since 1 July 2005.⁹ Its implementation in the Czech Republic, however, was tied to the aforementioned amendment to the Capital Market Undertakings Act.

The amendment to the Act on Collective Investment introduced new regulation of collective investment funds, in particular special funds. It newly distinguished between funds which collect money from the public and funds which collect money from qualified investors. Another significant benefit is detailed legal regulation of special real estate funds.

Amendment to the Act on Collective Investment

Of the legal rules adopted, the following deserve special mention: a comprehensive amendment to the decree on the requisites and the manner of keeping a transactions and orders book of an investment firm and on the principles of keeping records of received and transmitted orders of the investment intermediary¹⁰ and a new decree on the use of techniques and instruments for effective management of the assets of a standard fund.¹¹

Decrees published

Work was ongoing on a decree on the manner of keeping separate records of investment instruments and records relating to separate records of investment instruments¹² and an amendment to the decree on the rules for the calculation of the capital adequacy of an investment firm which is not a bank on an individual basis.¹³ A decree on the fair presentation of investment recommendations, implementing Directive 2003/125/EC¹⁴, was also under preparation.

Decrees under preparation

⁴ Act No. 57/2006 Coll.

⁵ Act No. 6/1993 Coll. and Act No. 15/1998 Coll.

⁶ Directive 2002/87/EC

⁷ Directive 2003/71/EC

⁸ Directive 2003/6/EC

⁹ Commission Regulation (EC) No. 809/2004

¹⁰ Decree No. 261/2004 Coll. (amendment published under No. 221/2005 Coll.)

¹¹ Decree No. 139/2005 Coll.

¹² Decree No. 58/2006 Coll.

¹³ Decree No. 105/2006 Coll.

¹⁴ Decree No. 114/2006 Coll.

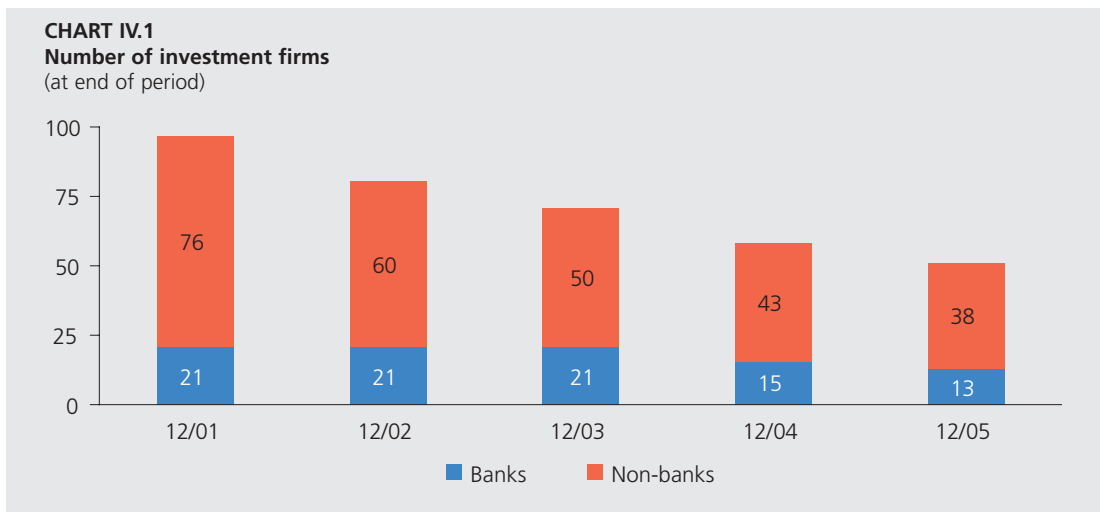
Investment firms

Number of licensed entities

At the start of 2005, 58 investment firms had been granted an investment firm licence by the Commission. Of this total, 43 were non-bank institutions and 15 were banks. By the end of the period under review, the number of investment firms had decreased to 51 (38 non-banks and 13 banks),¹⁵ as one licence was revoked and six licences expired during the period.

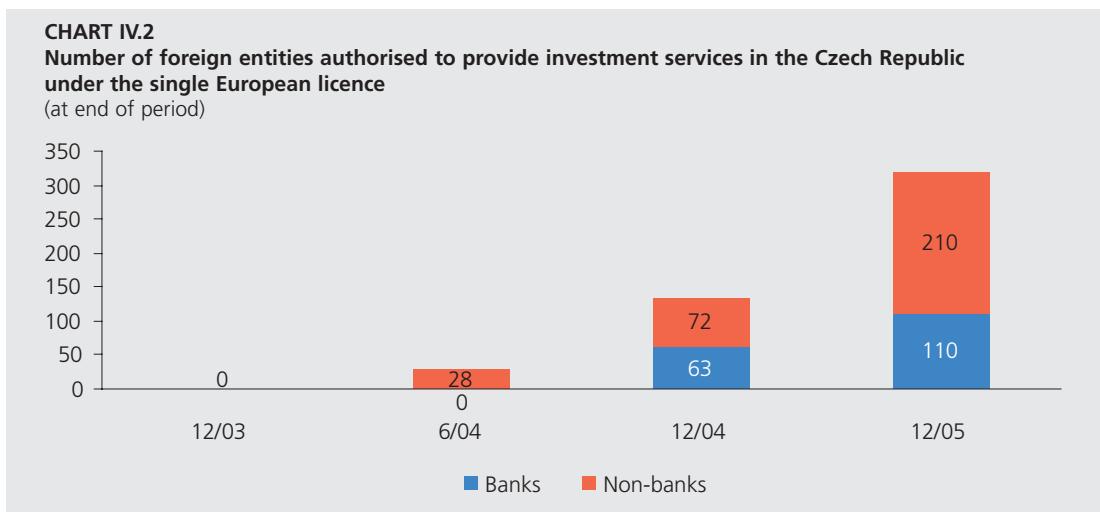
Newly issued and revoked licences

In the period under review, the Commission issued no decisions to grant an investment firm licence or a licence to establish a branch of a foreign investment firm. Conversely, one licence expired following a merger with a successor company and another expired following the dissolution of a company. Four other licences expired as a result of changes in the scope of business activities of the investment firms concerned. In one case, the Commission withdrew an investment firm's licence after it was declared bankrupt. The number of investment firms is shown in Chart IV.1.



Single European licence

As of 31 December 2005, the Commission registered a total of 320 entities (110 banks and 210 non-banks) authorised to provide investment firm services in the territory of the Czech Republic under the single European licence.



¹⁵ A total of 19 investment firms were members of the Prague Stock Exchange at the end of the period under review.

As regards historical comparisons of the volume of trading by investment firms, one should take into account that, following the Czech Republic's accession to the EU, some investment firms that had previously been operating through an organisational unit started taking advantage of the "European passport". The trading volumes of these and other entities operating in the Czech Republic under the single European licence are not included in the statistics below.

Taking into consideration all the above factors, which had a major effect on investment firms' total trading volumes, the volume of procurement trades¹⁶ carried out in 2005 totalled CZK 1,608 billion, of which share trades amounted to CZK 510 billion, bond trades to CZK 490 billion, derivatives trades to CZK 315 billion, money market instrument trades to CZK 137 billion and unit trades to CZK 156 billion.

During the period under review, investment firms carried out trades for their own account amounting to CZK 8,561 billion, of which share trades accounted for CZK 482 billion, bond trades for CZK 696 billion, derivatives trades for CZK 3,747 billion and money market instrument trades for CZK 3,637 billion.¹⁷

As of 31 December 2005, the volume of funds managed in individual portfolios totalled around CZK 288 billion. As of that date, investment firms had concluded more than one million contracts with clients, of which about 115,000 were active. The volume of client assets amounted to CZK 513 billion.

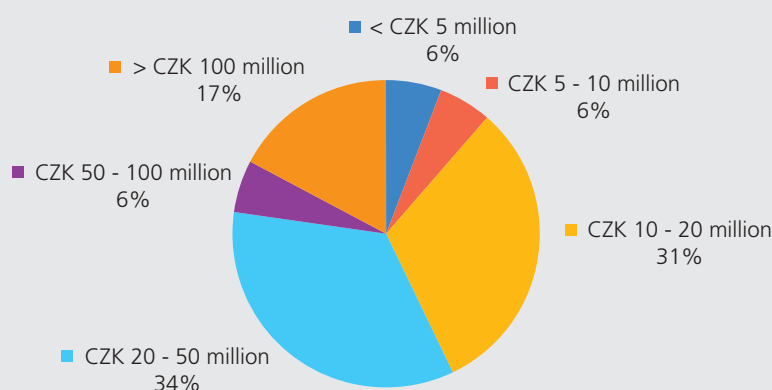
As of 31 December 2005, the capital of non-bank investment firms occurred most frequently in the CZK 20-50 million range.¹⁸ A more detailed capital breakdown is given in the chart below.

Trading volumes

Volume of funds, number of contracts, client assets

Capital of investment firms

CHART IV.3
Investment firms by total capital
(%; as of 31 December 2005)



Other supervised entities

As of the start of 2005, the Commission registered 5,719 investment intermediaries. The sharp rise in the number of registrations granted to these entities continued in the period under review. This rise was due, among other things, to changes in the orientation of the distribution networks of some building societies to include the sale of investment instruments. By the end of the year, the number of registered investment intermediaries had thus increased to 8,387. Unfortunately, this high number of supervised entities, combined with the current capacity constraints, does not allow systematic on-site inspections to be performed. The inspection activity in this area is therefore focused primarily on random examinations following up on complaints from the external environment.

Investment intermediaries

¹⁶ Procurement trades are trades executed by an investment firm for its clients.

¹⁷ Trades for own account mean trades executed by an investment firm for its own account, not for its clients.

¹⁸ For the purposes of this Report, capital means the sum of Tier 1, Tier 2 and used Tier 3 less deductible items.

Brokers The number of brokers also increased in the period under review. This rise, however, was not particularly significant: the number of registered brokers was 1,753 at the start of the period and 1,790 at the end of the year. However, only some of these brokers carry on activities which require broker examinations.

Major events relating to investment service provision

Supervision In the course of 2005, the Commission commenced, among other things, off-site surveillance of investment intermediaries to verify the implementation of the new legislation. Attention was also paid to public auctions of securities and to compliance with the information duty.

The reliability of the data originating from the information duty of investment firms increased in 2005. The information obtained is used to monitor financial stability and the activities of Czech capital market participants. An analysis of the data obtained under the information duty indicates that the investment firms sector can also be regarded as stable in terms of the financial condition of the individual entities.

Conservatorship The only investment firm in which serious problems were identified in 2005 was Americas International Brokers, a.s. The Commission introduced conservatorship in this company on 26 May 2005 after finding a number of serious shortcomings in its activities. The firm had failed to comply with numerous legal obligations and exhibited serious shortcomings in its financial management. The problems included, in particular, gross violation of the rules of conduct towards clients, non-compliance with the capital requirement, insufficient records of client assets and the absence of an effective internal control system. In addition, the firm failed to implement the remedial measures imposed by the Commission. On 26 October 2005, the conservator of Americas International Brokers, a.s. filed a bankruptcy petition in respect of its assets with the Municipal Court in Prague. The investment firm had long been unable to fulfil its obligations and was insolvent. Bankruptcy was declared on Americas International Brokers, a.s. by ruling of the Municipal Court in Prague, ref. no. 78 K 42/2005, on 1 December 2005.

Methodological activity In 2005, great attention was paid in the investment service providers sector to the implementation of the Capital Market Undertakings Act and related implementing legal regulations, as the transition period during which investment firms were supposed to bring their businesses into line with the new requirements of the Act ended on 31 December 2004. In this context, work on methodological documents continued, among other things in partnership with the representatives of investment service providers. These documents focused primarily on investment services, investment firm licences, qualifying holdings and close links. These documents were completed and should help increase the legal certainty of market participants going forward.

In the area of broker examinations, methodological work continued on a new blueprint for professional examinations. In 2005, a new category of examination, the "additional examination" to test candidates' knowledge of the Czech legislation, was created and implemented in both Czech and English.

Overview of collective investment undertakings

At the start of 2005, two investment funds (total number 46, of which 44 in liquidation) and 9 investment companies (total number 47, of which 37 in liquidation and 1 under conservatorship), managing 62 open-end mutual funds, were active on the Czech capital market under licences granted by the Commission. In addition, 50 foreign collective investment undertakings, with 911 foreign funds and sub-funds, were operating in this area. At the end of the period under review, the number of active investment funds fell to zero, but the number of active investment companies, managing 65 open-end mutual funds, remained unchanged. At the same time, the number of investment companies in liquidation decreased to 17. By contrast, the number of foreign collective investment undertakings rose to 53, with 1,038 funds/sub-funds, 1,025 of which were operating under the single European licence.

Number of licensed undertakings

In the investment company area, one licence was granted for the management of client assets. One licence to establish a new investment company was also issued. Following this decision, permission was also given for the transfer of management of an open-end mutual fund. The Commission granted prior consent to an increase in a qualifying holding in one investment company.

Newly issued and revoked IC licences

In the period under review, the Commission withdrew the licences of 8 investment companies due to non-performance of collective investment for more than 6 months; one licence was revoked on request. In connection with the licence revocations, 2 open-end mutual funds were transferred to the management of active investment companies.

2005 also saw the appointment of liquidators in 8 companies. These were replacements for liquidators of companies already in liquidation.

In the period under review, the Commission granted authorisations for the establishment of 2 standard and 10 special open-end mutual funds. A process of mergers of open-end mutual funds – both domestic funds and funds of foreign collective investment entities – was ongoing at the same time.

Newly issued and revoked OMF licences

Licences to create a total of 4 open-end mutual funds were withdrawn from 3 investment companies.

In the area of foreign collective investment undertakings (FCIUs), another 213 funds and sub-funds started operating in the Czech Republic and 86 funds and sub-funds were closed down. The reasons for the closures included the expiry of these funds/sub-funds' authorisations, mergers with other funds and decisions to terminate a fund's operations in the Czech Republic.

Foreign collective investment undertakings

Volume of assets managed by collective investment undertakings

The volume of funds in open-end mutual funds increased by almost CZK 30 billion year on year, to CZK 143 billion. Net sales of units, i.e. the difference between the value of units sold and the value of units re-purchased from investors, amounted to CZK 23 billion in 2005.

OMF funds and net sales

Foreign collective investment undertakings' net sales to Czech investors exceeded CZK 20 billion in 2005, according to the available information.

FCIU net sales

The structure of investments in open-end mutual funds by fund type and their year-on-year changes are shown in the table below.

TABLE V.1
Structure of total investments in open-end mutual funds by fund type

As of	Equity OMFs		Bond OMFs		Money market OMFs		Mixed OMFs		Funds of funds OMFs		OMFs, total
	CZK mil.	share in %	CZK mil.	share in %	CZK mil.	share in %	CZK mil.	share in %	CZK mil.	share in %	CZK mil.
31 Dec. 2004	4,863	4.3	21,912	19.4	63,088	55.9	22,488	19.9	459	0.4	112,810
31 Dec. 2005	7,760	5.4	26,842	18.8	78,041	54.7	23,767	16.7	6,330	4.4	142,740

Major events relating to collective investment

OMF statutes Following legislative changes associated with the Czech Republic's accession to the EU, Czech investment companies were obliged to bring the statutes of open-end mutual funds into line with the Act on Collective Investment at the latest one year after the Act came into effect, i.e. by 1 May 2005. The Commission verified compliance with this obligation, with a positive outcome.

Simplified FCIU prospectus Foreign collective investment undertakings were notified of the publication on 3 February 2005 of a CESR methodology for supervisory authorities regarding the transitional provisions of the amended UCITS directives, in particular those relating to simplified prospectuses. Under this methodology, foreign collective investment undertakings were obliged to submit simplified prospectuses for UCITS and funds operating in the Czech Republic by 4 April 2005.

Overview of private pension scheme operators

As of 31 December 2005, a total of 11 pension funds were operating on the private pension scheme market. Compared to the previous period, the number of pension funds remained unchanged: no funds went into liquidation, nor were there any pension fund mergers.

Number of licensed entities

Structure of pension fund assets

The total assets managed by pension funds amounted to CZK 123 billion at the end of 2005, up by around CZK 21 billion compared to the same period a year earlier. Profit increased by CZK 1.37 billion year on year to CZK 4.57 billion in 2005. The growth in pension fund assets over the past five years is shown in Chart VI.1. The structure of pension fund assets is illustrated in Chart VI.2.

Total assets and profit

CHART VI.1
Total assets of pension funds
(CZK billions; at end of period)

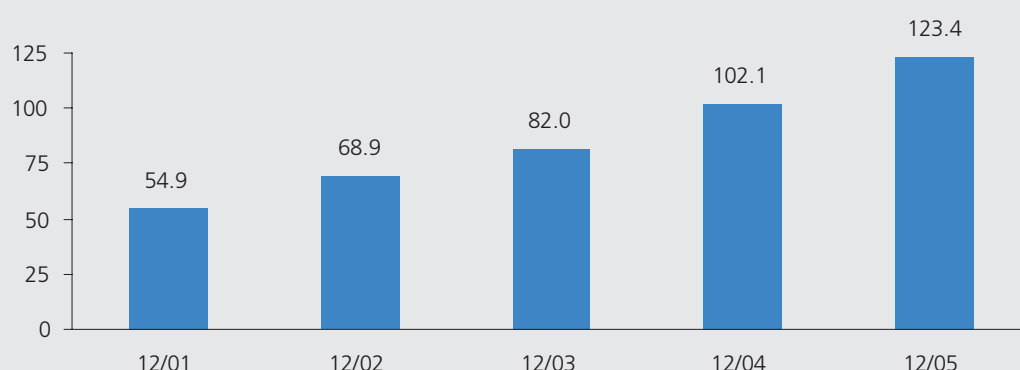
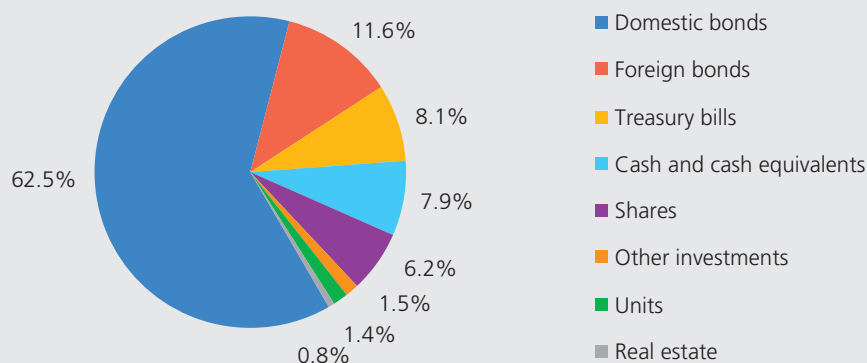


CHART VI.2
Structure of pension fund assets
(%; as of 31 December 2005)



Volume of planholders' funds

The funds of private pension planholders, i.e. planholders' deposits plus state contributions and employer contributions, amounted to around CZK 113 billion at the end of 2005, an increase of CZK 19 billion on 2004. The average volume of funds per planholder thus increased from CZK 31,800 to CZK 34,500. The number of people with private pension schemes was 3.3 million at the end of 2005, up by 11% on a year

Volume of funds and number of planholders

earlier. The growth in planholders' funds is shown in Chart VI.3. The growth in the number of planholders is shown in Chart VI.4.

CHART VI.3
Planholders' funds
(CZK billions; at end of period)

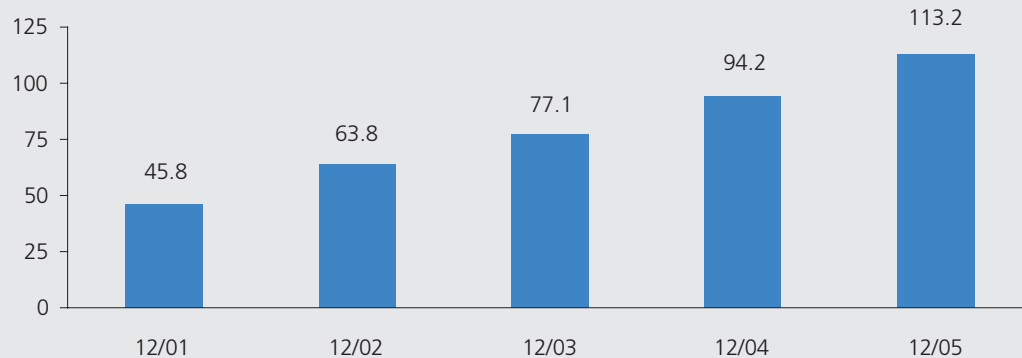
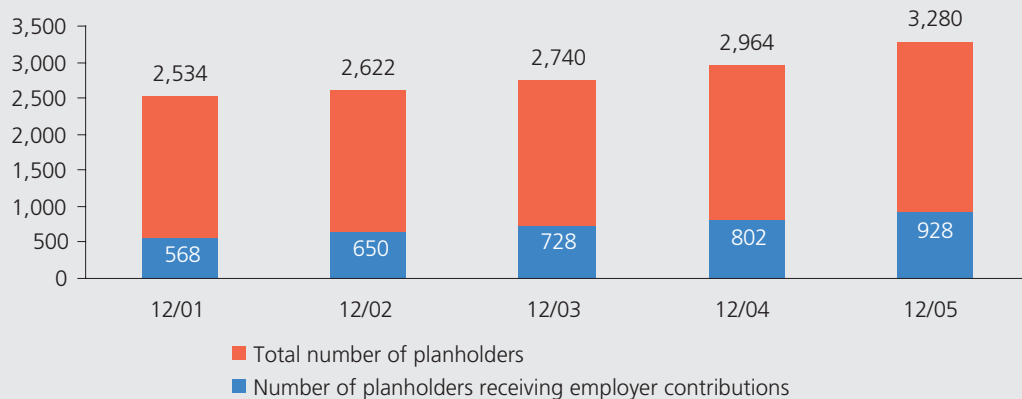


CHART VI.4
Number of planholders
(thousands; at end of period)



Major events relating to pension funds

Shareholder structure

The shareholder structure of most pension funds in the Czech Republic consists mainly of banking and insurance companies. This structure was further strengthened in the period under review, as Československá obchodní banka, a.s. acquired a 100% share in Hornický penzijní fond Ostrava, a.s. on 13 December 2005.

Information systems in private pension schemes

The Act on Supplementary Supervision of Banks, Credit Unions, Electronic Money Institutions, Insurance Corporations and Investment Firms in Financial Conglomerates and on the Amendment of Certain Other Acts (the Act on Financial Conglomerates) introduced rules for the operation of information systems in private pension schemes to provide for a higher level of personal data protection.¹⁹

¹⁹ Primarily in the area of keeping records of birth certificate numbers pursuant to Article 46(3) of Act No. 42/1994 Coll., under which the Ministry of Finance and pension funds, in the context of performing their duties, are entitled to keep a record of, process or collect the birth certificate numbers of birth certificate number holders given in contracts, or similar identification numbers where no birth certificate number has been allocated.

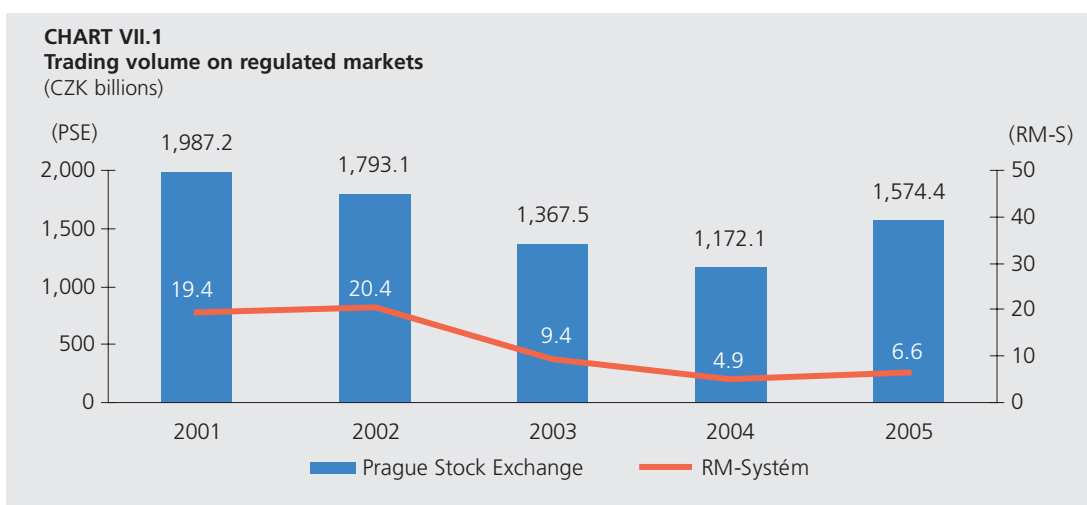
Trading on regulated markets ²⁰

The market capitalisation of securities traded on the regulated markets recorded annual growth on the Prague Stock Exchange and on the market operated by RM-System. The market capitalisation of stocks traded on the PSE was CZK 1,331 billion on 31 December 2005, up by 36.4% compared to the same day a year earlier, even though the number of share issues traded on this market declined from 55 to 39. The market capitalisation of bonds traded on the PSE recorded slightly less growth than in the case of shares, rising by 13.6% to more than CZK 655 billion. The number of bond issues traded on the PSE rose from 77 to 93. The market capitalisation of shares traded on the RM-S market rose by 33.7% to almost CZK 918 billion, while that of bonds increased by 6.6% year on year to CZK 526 billion. The total number of issues traded on the RM-S market in the period under review fell from 178 to 123.

In 2005, the total trading volume on the regulated markets grew by 34.2% to CZK 1,581 billion. The vast majority of securities transactions took place on the market operated by the PSE, which saw a total trading volume of CZK 1,574.4 billion in 2005, up by 34.3% (CZK 402.3 billion) on a year earlier. The trading volume on the OTC market operated by RM-S grew by 34.7% to CZK 6.6 billion. The significance of the two securities markets in terms of trading volume is shown in Chart VII.1.

Capitalisation and number of issues traded

Trading volumes



As in previous years, the volume of transactions on the bond market declined (by 23%), while the stock market grew by more than 117%. The share trading volume on the PSE reached a record high in 2005, amounting to CZK 1,041.2 billion and accounting for 99.5% of all share trading on the regulated markets. The volume of shares traded in the PSE's SPAD system totalled CZK 1,040 billion, which equates to 99.9% of the total stock-exchange share trading volume in 2005.²¹ The share of share trading in total PSE trading increased from 19% in 2003 and 41% in 2004 to 66% in 2005.

Trading structure

As for the bond market, the PSE accounted for 99.8% of the transactions on regulated markets. These figures are shown in Table VII.1.

²⁰ The markets operated by the Prague Stock Exchange (Burza cenných papírů Praha, a.s.) and RM-System.

²¹ SPAD - Share and Bond Market Support System

TABLE VII.1
Trading volume structure by instruments on the PSE and RM-S in 2005

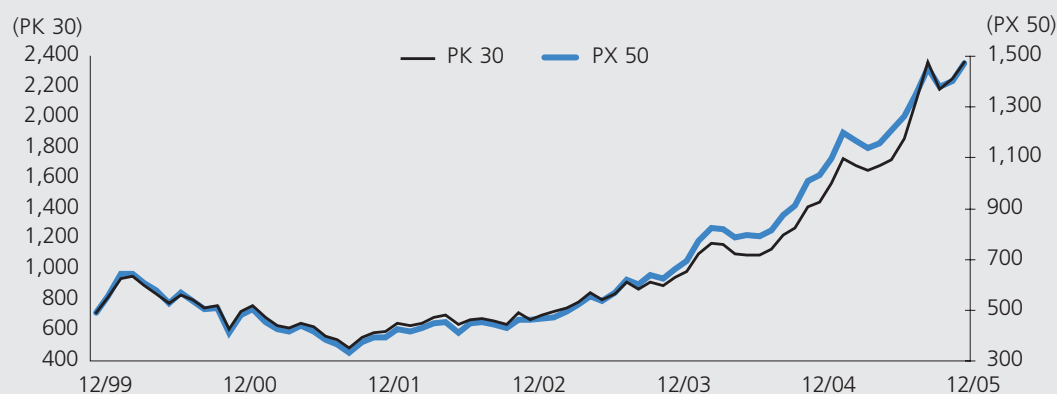
	Shares		Bonds		Units		Total	
	CZK bn	%	CZK bn	%	CZK bn	%	CZK bn	%
PSE	1,041.2	99.5	533.2	99.8	0.0	0.0	1,574.4	99.6
RM-S	5.5	0.5	1.1	0.2	0.0	0.0	6.6	0.4
Total	1,046.7	100.0	534.3	100.0	0.0	0.0	1,581.0	100.0

The PSE records many times higher trading volumes than RM-System mainly because investment firms, who act as market-makers in the SPAD system, ensure a constant supply of and demand for securities. Investors can thus be sure of buying or selling securities traded in SPAD at virtually any time on the PSE market. The PSE is mainly favoured by institutional investors, while RM-System is used more by individual small investors. Last but not least, it should be mentioned that a resolution of the Exchange Chamber obliges PSE members with securities listed on the PSE to trade among themselves solely on regulated markets and to register trades with non-members in the PSE system.

PK 30 and PX 50 indices

Both the indices under review grew significantly again in 2005. The PSE's PX 50 index stood at 1,473 points on 30 December 2005, up by 42.7% on a year earlier. The OTC PK 30 ended 2005 at 2,365 points, having gained 63.8%. The PX 50 and PK 30 are shown in Chart VII.2.

CHART VII.2
PK 30 and PX 50 indices



Major events relating to trading on regulated markets

Squeeze-out of minority shareholders

The amendment to the Commercial Code changing the squeeze-out rules provoked an intense debate among experts in the field. Following the introduction of the new right of a majority shareholder holding 90% or more of a company to squeeze minority shareholders out of the company, seven issues were delisted from the PSE market and eight issues from the OTC RM-S market. With effect from 29 September 2005, squeeze-out is subject to approval by the Czech Securities Commission.

New issues on regulated markets

As in previous years, the delisting of securities from regulated markets this year continued to outnumber the admittance of new issues. Thus, the launch of trading in Orco Property Group (ORCO) share issues on 1 February 2005 was a positive development (Orco's shares are also traded on the Paris Bourse). Another dual listing on the PSE was Central European Media Enterprises (CME) on 27 June 2005. Its shares are traded concurrently on the NASDAQ. In 2005, however, the PSE saw no initial public offerings similar to Zentiva the previous year.

The Commission approved new trading rules for the RM-S OTC market, which among other things allow RM-S to operate an open market.²² The open market is an investment instruments market where issuers do not have to meet such strict conditions as on an official market. For example, they do not have to disclose their financial results or make a takeover bid, i.e. offer to purchase shares when a shareholder acquires a majority stake. One of the conditions for admitting an investment instrument to trading on an open market is that its prospectus must have been approved by the Commission and subsequently published by the open market operator. The open market was launched on RM-S on 1 August 2005, and 20 securities issues were traded there at the end of 2005.

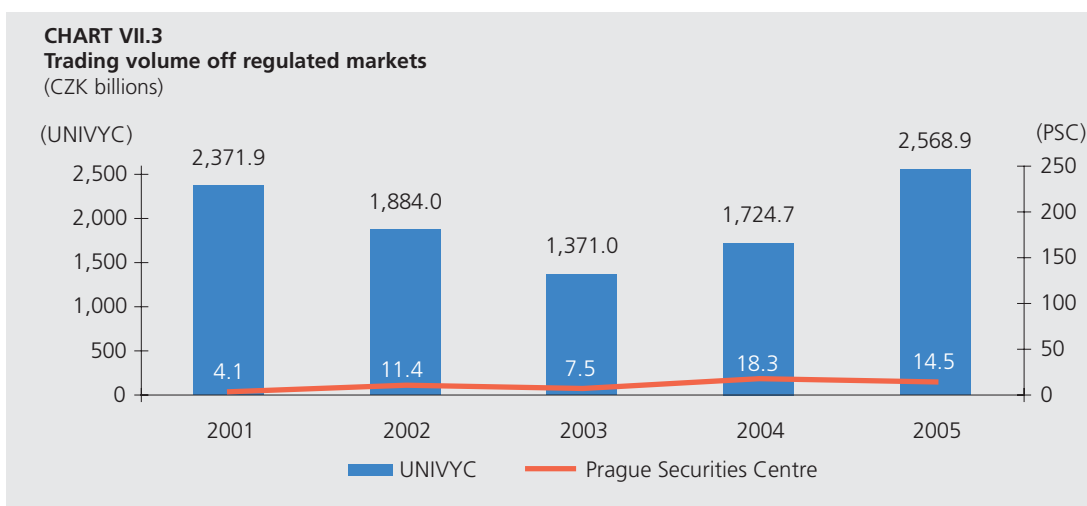
RM-System open market

Trading off regulated markets

Transactions executed off the regulated markets are commercial or non-commercial transfers other than transactions executed on the regulated market. Such transactions are settled either directly at the Prague Securities Centre in the case of book-entry securities, or through UNIVYC in the case of physical securities in UNIVYC. Transfers such as custody transfers, loans of securities, repos, buy-and-sell transactions and transactions between UNIVYC members who are not stock exchange members account for most such transactions in UNIVYC. Transfers executed through the Prague Securities Centre include transactions in listed securities executed outside the standard capital market infrastructure, i.e. off the regulated markets and settlement systems. Such transactions were settled directly in the system of the entity keeping the central register of book-entry securities.²³

The volume of securities traded off the regulated markets in 2005 exceeded CZK 2,583 billion, an increase of 48.2% on a year earlier. Trading volumes off the regulated markets in the past five years are shown in Chart VII.3.

Trading volumes



Trading off the regulated markets is conducted mainly through UNIVYC. It accounts for 99.4% of all trading off the regulated markets in the case of both shares and bonds. The remaining trading in shares and bonds was executed over the counter at the Prague Securities Centre. The volume of OTC trading at the Prague Securities Centre fell by 20.8% compared to the previous year, while the volume of trading conducted through UNIVYC rose by 48.9%. The trading volume structure off the regulated markets by types of securities is shown in Table VII.2.

Trading structure

²² Pursuant to Article 40 of the Capital Market Undertakings Act.

²³ This relates solely to transactions in which the counterparties stated the price at which the transaction was made.

TABLE VII.2
Trading volume structure by securities on the PSC and UNIVYC in 2005

	Shares		Bonds		Units		Total	
	CZK bn	%	CZK bn	%	CZK bn	%	CZK bn	%
UNIVYC	1,204.3	99.4	1,364.6	99.4	0.0	0.0	2,568.9	99.4
SCP	7.0	0.6	7.5	0.6	0.0	0.0	14.5	0.6
Total	1,211.3	100.0	1,372.1	100.0	0.0	0.0	2,583.4	100.0

Securities issues

New issues

Issuance terms and conditions were approved for 56 bond issues totalling CZK 113 billion in 2005. These included 27 issues of listed bonds totalling CZK 87 billion and 29 issues of unlisted bonds totalling CZK 26 billion.²⁴ In addition, 7 share prospectuses and narrower prospectuses were approved, 2 of them for issues of listed shares and 5 for issues of unlisted shares.²⁵ A list of these is included in the statistical annex.

RM-S open market

Following the approval by the Commission of the new trading rules for the RM-S OTC market, which among other things allow RM-S to operate an open market, the Commission approved narrower prospectuses for 20 issues of unlisted shares in the period under review for the purpose of their admittance to this open market.

Takeover bids, public offers and squeeze-outs

In 2005, 16 securities transfers were made which obliged the transferee or persons acting in concert to present a takeover bid. In one case, the main shareholder of a listed company decided to make a voluntary share-purchase offer. The general meetings of 5 companies resolved to delist shares they had issued. Such resolutions of general meetings or main shareholders obliged the companies concerned to make a public share-purchase contract offer, publication of which is subject to approval by the Commission, to those shareholders who voted against such resolution or did not attend the General Meeting.

Takeover bids, public offers, public share-purchase contract offers

The Czech Securities Commission thus conducted a total of 46 administrative proceedings in the area of takeover bids or public share-purchase contract offers in the period under review, of which

- 31 concerned a mandatory takeover bid, of which:
 - ◆ 2 concerned a combined mandatory takeover bid and purchase offer;
 - approved by the Commission in both cases;
 - ◆ 29 concerned a takeover bid only;
 - approval granted in 15 cases;
 - prohibited in 13 cases;
 - discontinued in 1 case;
- 8 concerned a public share-purchase contract offer relating to listed participating securities, of which:
 - ◆ approval was granted in 6 cases;
 - ◆ the application was withdrawn by the bidder in 2 cases and the proceedings were thus discontinued;
- 5 concerned a voluntary takeover bid relating to listed participating securities, of which
 - ◆ approval was granted in 2 cases;
 - ◆ the takeover bid was prohibited in 3 cases;

²⁴ In 8 cases the offer of unlisted bonds and mortgage bonds took the form of an offer to the public.

²⁵ All 5 issues of unlisted shares, which were aimed at increasing capital, took the form of an offer to the public.

- 1 concerned a purchase offer based on a resolution of a majority shareholder, the content of which was approved;
- 1 concerned an application for relief from the takeover bid duty; this application was denied by the Commission.

In 2005, the "squeeze-out" principle was introduced into Czech law in an amendment to the Commercial Code. A provision of the Commercial Code²⁶ allows the General Meeting of a company to decide to transfer all other participating securities to the main shareholder. With effect from 29 September 2005, the adoption of such a resolution by the General Meeting is subject to prior approval by the Czech Securities Commission of the amount of the consideration proposed by the main shareholder. In the approval proceedings, the Commission carefully examines whether the expert opinion truly proves the adequacy of the consideration offered to minority shareholders. The Commission conducted a total of 33 administrative proceedings in this area in the period under review, of which

**Squeeze-out
of minority
shareholders**

- approval was granted in 14 cases;
- prior approval was not granted in 18 cases;
- the administrative proceedings were discontinued in 1 case due to withdrawal of the application.

A detailed list of decisions regarding takeover bids, purchase offers, public share-purchase contract offers and squeeze-outs is included in the statistical annex.

²⁶ Articles 183i-183n

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Table 1
Listed bonds issued in 2005 (in CZK)

Issue date	ISIN	Issuer	Size
22 March 2005	CZ0003501447	Czech Property Investments, a.s.	650,000,000
23 March 2005	CZ0002000482	Raiffeisenbank, a.s.	500,000,000
31 March 2005	CZ0002000490	ČMHB, a.s.	1,500,000,000
5 May 2005	CZ0002000524	ČESKÁ SPOŘITELNA	2,000,000,000
6 May 2005	CZ0002000516	ČESKÁ SPOŘITELNA	600,000,000
11 May 2005	CZ0002000508	WÜSTENROT hypoteční banka, a.s.	1,000,000,000
16 May 2005	CZ0003701005	ČESKÁ SPOŘITELNA	3,000,000,000
19 May 2005	CZ0002000532	ČMHB, a.s.	2,500,000,000
30 June 2005	CZ0002000573	ČESKÁ SPOŘITELNA	2,000,000,000
14 July 2005	CZ0003701047	ČESKÁ SPOŘITELNA	1,000,000,000
2 August 2005	CZ0002000565	KOMERČNÍ BANKA	5,200,000,000
-	CZ0002000540	eBanka, a.s.	750,000,000
14 July 2005	CZ0003701047	ČESKÁ SPOŘITELNA	1,000,000,000
15 September 2005	CZ0003701054	ČESKÁ SPOŘITELNA	300,000,000
2 August 2005	CZ0002000565	KOMERČNÍ BANKA	5,200,000,000
5 October 2005	CZ0002000649	HVB Bank Czech Republic (28.emise)	6,000,000,000
5 October 2005	CZ0002000672	HVB Bank Czech Republic (29.emise)	6,300,000,000
7 October 2005	CZ0002000623	ČESKÁ SPOŘITELNA	5,000,000,000
7 October 2005	CZ0002000664	KOMERČNÍ BANKA	20,000,000,000
17 October 2005	CZ0003701062	ČESKÁ SPOŘITELNA (6.emise)	300,000,000
27 October 2005	CZ0002000656	ČMHB, a.s. (4.emise)	3,000,000,000
15 November 2005	CZ0003501462	SEVEROMORAVSKÉ VaK	2,000,000,000
21 November 2005	CZ0002000698	Raiffeisenbank, a.s. (4.emise)	600,000,000
23 November 2005	CZ0002000680	HVB Bank Czech Republic (30.emise)	1,000,000,000
29 November 2005	CZ0002000557	eBanka, a.s.	750,000,000
19 December 2005	CZ0002000763	ČESKÁ SPOŘITELNA	10,000,000,000
22 December 2005	CZ0002000771	ČESKÁ SPOŘITELNA	5,000,000,000
Total:			87,150,000,000

Table 2
Listed bond issues admitted (dual listing)

Issuer	ISIN	Face value	Size
Orco Property Group S.A.	FR0010108704	32.4 EUR	32,450,641 EUR

Table 3
Listed share issues/tranches admitted (dual listing)

Issuer	ISIN	Face value	Size
Orco Property Group S.A.	LU0122624777	-	-
Central European Media Enterprises LTD.	BMG200452024	0.08 USD	8,000,000 USD

Table 4
Publicly offered unlisted shares (in CZK)

Issuer	Offeror	Face value	Size
MSA, a.s.	MSA, a.s.	15	11,509,740
Daewoo Avia, a.s	Daewoo Avia, a.s.	46	4,998,351,582
MIPE-N, a.s.	Michelské pekárny, a.s.	351	63,651,042
MSA, a.s.	MSA, a.s.	15	1,982,970
E.ON Česká republika, a.s	E.ON Česká republika, a.s.	10	42,135,470

Table 5
Mandatory takeover bid after gaining control over the target company or acquiring a 2/3 or 3/4 share of the voting rights in the target company

Bidder	Target company	Decision
Mittal Steel Company, N.V.	JÁKL Karviná, a.s.	approved
Amman BauAusrüstung AG	STAVOSTROJ, a.s.	approved
nkt cables, a.s.	České kabely, s.r. o.	approved
Jihočeská vzájemná iniciativní společnost, a.s.	RYBÁŘSTVÍ Třeboň, a.s.	approved
K.O.P., a.s.	Českomoravské doly, a.s.	approved
JUPITER-S, a.s.	SFINX, a.s.	approved
J&T Banka, a.s.	RM-S Holding, a.s.	approved
Almet, a.s.	Kdynium, a.s.	prohibited
Syderit, a.s.	Tranza, a.s.	prohibited
Almet, a.s.	Kdynium, a.s.	prohibited
Telefónica, S.A.	Český Telecom, a.s.	approved
Polski Koncern Naftowy Orlen S.A.	Spolana, a.s.	prohibited
Polski Koncern Naftowy Orlen S.A.	Paramo, a.s.	prohibited
Polski Koncern Naftowy Orlen S.A.	Unipetrol, a.s.	prohibited
Almet, a.s.	Kdynium, a.s.	approved
Polski Koncern Naftowy Orlen S.A.	Spolana, a.s.	approved
Polski Koncern Naftowy Orlen S.A.	Paramo, a.s.	approved
Polski Koncern Naftowy Orlen S.A.	Unipetrol, a.s.	approved
Rustige Holding, s.r.o.	SILON, a.s.	prohibited
SYDERIT, a.s.	TRANZA, a.s.	prohibited
Axia Finance, s.r.o.	Jitka, a.s.	prohibited
Czech Energy Holding, a.s.	United Energy, a.s.	prohibited
SYDERIT, a.s.	Tranza, a.s.	prohibited
Rustige Holding, s.r.o.	SILON, a.s.	approved
Czech Energy Holding, a.s.	United Energy, a.s.	approved
Via Chem Group, a.s.	Spolek pro chemickou a hutní výrobu, a.s.	halted
Via Chem Group, a.s.	Spolek pro chemickou a hutní výrobu, a.s.	approved
ČESKÝ OLEJ, a.s.	SETUZA, a.s.	prohibited
Axia Finance, s.r.o.	Jitka, a.s.	prohibited

Table 6
Mandatory takeover bid combined with purchase offer

Bidder	Target company	Decision
KARBON INVEST, a.s.	OKD, a.s., člen koncernu KARBON INVEST, a.s.	approved
K.O.P., a.s.	METALIMEX, a.s.	approved

Table 7
Purchase offer

Bidder	Target company	Decision
C. H. G., spol. s r.o.	GUMOTEX, a. s.	approved

Table 8
Application for relief from the takeover bid duty

Bidder	Target company	Decision
Lesostavby Holding, a.s.	Lesostavby Šumperk, a .s.	denied

Table 9
Voluntary takeover bid

Bidder	Target company	Decision
E.ON Czech Holding Verwaltungs GmbH	Jihočeská energetika, a.s.	approved
E.ON Czech Holding Verwaltungs GmbH	Jihomoravská energetika, a.s.	approved
Ing. Rudolf Ovčáří	JÁKL Karviná, a.s.	prohibited
Arca Capital Bohemia, a.s.	Spolek pro chemickou a hutní výrobu, a.s.	prohibited
Jihomoravské dřevařské závody a.s.	Spolek pro chemickou a hutní výrobu, a.s.	approved

Table 10
Public contract offer following the decision of the bidder's General Meeting to delist shares

Bidder	Decision
Lafarge Cement, a.s.	discontinued
Lafarge Cement, a.s.	approved
Kabelovna Děčín – Podmokly, a.s	approved
Wienerberger cihlářský průmysl, a.s.	approved
Šmeral Brno, a.s.	approved
Agrostroj Pelhřimov, a. s.	approved
Severočeská energetika, a.s.	halted
Severočeská energetika, a.s.	approved

Table 11 Squeeze-outs		
Main shareholder	Target company	Decision
KUPONINVEST, a.s.	České přístavy, a.s.	withdrawn
KUPONINVEST, a.s.	Centrum stavebního inženýrství, a.s.	not approved
Železiarně Podbrezová, a.s.	ŽĐAS, a.s.	approved
Ing. Ivo Sedlák	AUTOMT, a.s.	not approved
WESPORT-CONSULTADORIA E SERVICOS S.A.	Čechofracht, a.s.	not approved
Mittal Steel Ostrava, a.s.	VÁLCOVNY PLECHU, a.s.	approved
Resolution Specialty Materials Rotterdam B.V.	RSM Chemacryl, a.s.	not approved
Industrial Group Holding KKCG B.V.	ŽDB, a.s.	not approved
Mayfield Říčany, a.s.	SANITAS, a.s.	approved
CHART International Holdings, Inc.	FEROX, a.s.	approved
TECHNOPETROL, a.s.	Kovoprojekta Brno, a.s.	not approved
Petofin AG	SAFINA, a.s.	approved
Ministerstvo Financí ČR	ŠKODA EXPORT, a.s.	not approved
Resolution Specialty Materials Rotterdam B.V.	RSM Chemacryl, a.s.	approved
ZZN Pelhřimov, a.s.	AGS České Budějovice, a.s.	not approved
Vendimatic S.A.	Frigera, a.s.	not approved
Dorsi Consulting, a.s.	Imperial Karlovy Vary, a.s.	approved
Euro-Druckservice Aktiengesellschaft	TYPOS, tiskařské závody, a.s.	approved
Českomoravský cement, a.s. nást. spol.	Českomoravské štěrkovny, a.s.	not approved
Speditons Holding GmbH	ČSKD INTRANS, a.s.	not approved
Kooperativa, pojišťovna, a.s.	UNIGEO, a.s.	approved
Alphaduct, a.s.	Dermacol, a.s.	approved
ČESKÝ OLEJ, a.s.	SETUZA, a.s.	not approved
ZZN Pelhřimov, a.s.	AGS České Budějovice, a.s.	not approved
Czech Energy Holding, a.s.	United Energy, a.s.	approved
Oxnard Enterprises Limited	Jihlavské dřevařské závody, a.s.	not approved
Martin Pacner	KUKS, a.s.	not approved
FITE-DV Koncern, a.s.	ČKD Praha Holding, a.s.	approved
ICOM Transport, a.s.	ČSAD Benešov, a.s.	not approved
XMCC, s.r.o.	Velvana, a.s.	not approved
Agropol Group, a.s.	Agrona, a.s.	approved
OSONA Holding, a.s.	Larm, a.s.	not approved
MADETA Group, a.s.	MADETA, a.s.	approved

Act on Bonds	Act No. 190/2004 Coll., on Bonds
Act on Collective Investment	Act No. 189/2004 Coll., on Collective Investment
Act on Financial Conglomerates	Act No. 377/2005 Coll., on Financial Conglomerates
Capital Market Undertakings Act	Act No. 256/2004 Coll., on Capital Market Undertakings
CESR	Committee of European Securities Regulators
CNB	Czech National Bank
Commercial Code	Act No. 513/1991 Coll., the Commercial Code
Commission	Czech Securities Commission
CZSO	Czech Statistical Office
EU	European Union
FCIU	foreign collective investment undertaking
GDP	gross domestic product
IC	investment company
IF	investment fund
OMF	open-end mutual fund
OTC	over-the-counter
PSE	Prague Stock Exchange (Burza cenných papírů Praha, a.s.)
RM-S	RM-Systém, a.s.
UCITS	Undertakings for Collective Investment in Transferable Securities
UNIVYC	UNIVYC, a.s. (a settlement system)

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