



THE CZECH REPUBLIC

acting through the Ministry of Finance

€10,000,000,000

EURO MEDIUM TERM NOTE PROGRAMME

*Under this €10,000,000,000 Euro Medium Term Note Programme (the “**Programme**”), the Czech Republic acting through the Ministry of Finance (the “**Czech Republic**” or the “**Issuer**”) may from time to time issue notes (the “**Notes**”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €10,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement described herein), subject to an increase, as described herein.*

*Application may be made to the Luxembourg Stock Exchange for the Notes issued under the Programme to be listed on the official list and admitted to trading on the regulated market of the Luxembourg Stock Exchange on an issue by issue basis from the date hereof. The regulated market of the Luxembourg Stock Exchange is the regulated market for the purposes of Directive 2004/39/EC on Markets in Financial Instruments (the “**MiFID**”). The Programme also permits Notes to be issued on an unlisted basis or to be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer and the relevant Dealer. The relevant Final Terms (as defined herein) in respect of the issue of any Notes will specify whether or not such Notes will be admitted to trading and listed on the Luxembourg Stock Exchange (or any other stock exchange). The Programme also allows the Issuer to appoint additional Dealers and to increase the amount of Notes issuable under the Programme.*

Arrangers and Dealers for the Programme

Barclays Capital

Deutsche Bank

IMPORTANT NOTICES

This offering circular, as amended or supplemented, (the “**Offering Circular**”) contains information provided by the Issuer in connection with the Programme and the Notes to be issued under the Programme. The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular neither constitutes a prospectus pursuant to Part II of the Luxembourg law on prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) dated 10 July 2005 (the “**Luxembourg Prospectus law**”) (which implements the Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (the “**Prospectus Directive**”)) nor a simplified prospectus pursuant to Chapter 2 of Part III of the Luxembourg Prospectus Law. Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements of the Prospectus Directive and Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive, and it has not been and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Directive and in particular the Supervisory Commission of the Financial Sector (*Commission de Surveillance de Secteur Financier*), in its capacity as competent authority under the Luxembourg Prospectus Law.

This document should be read and construed with any amendment or supplement thereto and with any other documents incorporated by reference (see “*Documents Incorporated by Reference*” below) and, in relation to any Series (as defined herein) of Notes, should be read and construed together with the relevant Final Terms) (as defined herein). This Offering Circular may only be used for the purposes for which it has been published.

The Issuer has, pursuant to a dealer agreement (the “**Dealer Agreement**”) dated 23 May 2008 appointed Barclays Bank PLC and Deutsche Bank AG, London Branch (the “**Dealers**”) as dealers for the Notes under the Programme, and has authorised and requested the Dealers to circulate this Offering Circular in connection with the Programme, subject to the provisions of the Dealer Agreement. The Issuer has confirmed to the Dealers that this Offering Circular is true, accurate and complete in all material respects and is not misleading; that the opinions and intentions expressed therein are honestly held and based on reasonable assumptions; that there are no other facts in relation to the information contained or incorporated by reference in this Offering Circular the omission of which would, in the context of the Programme or the issue of the Notes, make any statement therein or opinions or intentions expressed therein misleading in any material respect; and that all reasonable enquiries have been made to verify the foregoing. The Issuer has further confirmed to the Dealers that this Offering Circular (together with the relevant Final Terms) contains all such information as may be required by all applicable laws, rules and regulations.

No person has been authorised by the Issuer or any of the Dealers to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer or any Dealer.

No representation or warranty is made or implied by the Dealers or any of their respective affiliates, and neither the Dealers nor any of their respective affiliates makes any representation or warranty or accepts any responsibility, as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date thereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial situation of the Issuer since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon any such investigation as it deems necessary. Neither this Offering Circular, or any Final Terms, nor any other information supplied

in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Offering Circular or any Final Terms, or any other information supplied relating to the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer, as it deems necessary.

The distribution of this Offering Circular and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular or any Final Terms comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Offering Circular or any Final Terms and other offering material relating to the Notes, see “*Subscription and Sale*”. **In particular, Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) and may include Notes in bearer form which are subject to U.S. tax law requirements. Subject to certain exceptions permitted by U.S. Treasury Regulation, Notes may not be offered, sold or delivered within the United States or its possessions or to United States persons. Terms used in this paragraph have the meaning given to them by the U.S. Internal Revenue Code of 1986, as amended, and the U.S. Treasury Regulations promulgated thereunder.**

Neither this Offering Circular nor any Final Terms constitute an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Dealers or any of them that any recipient of this Offering Circular or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Offering Circular or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

All references in this Offering Circular to “euro”, “EUR” or “€” are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, all references to “U.S. dollar”, “USD” or “\$” are to the lawful currency of the United States of America, all references to “Sterling” or “£” are to the currency of the United Kingdom and all references to “Czech koruna” or “CZK” are to the lawful currency of the Czech Republic.

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In connection with the issue of any Tranche of Notes under the Programme, the Dealer or Dealers (if any) which is specified in the relevant Final Terms as the Stabilising Manager (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

DOCUMENTS INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with each set of relevant Final Terms. All amendments and supplements to this Offering Circular and any Final Terms prepared by the Issuer from time to time shall be deemed to be incorporated in, and to form part of, this Offering Circular, save that any statement contained in this Offering Circular or in any of the documents incorporated by reference in, and forming part of, this Offering Circular shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement.

The Issuer will, at the specified offices of the Paying Agent, provide, free of charge, upon request therefor, a copy of this Offering Circular (or any document incorporated by reference in this Offering Circular). Written or telephone requests for such documents should be directed to the specified office of the Paying Agent or the specified office of the Listing Agent in Luxembourg.

SUPPLEMENTARY OFFERING CIRCULAR

The Issuer has undertaken that in the event that a significant new factor, material mistake or inaccuracy relating to the information included in the Offering Circular arises or is noted which is capable of affecting assessment of the Notes which may be issued under the Programme or if the terms of the Programme are amended in a manner which would make the Offering Circular, as supplemented, inaccurate or misleading, the Issuer will update or amend this Offering Circular or, as the case may be, publish a new Offering Circular, for use in connection with any subsequent issue by the Issuer of Notes.

TABLE OF CONTENTS

	Page
OVERVIEW OF THE PROGRAMME.....	6
TERMS AND CONDITIONS OF THE NOTES	9
PROVISIONS RELATING TO NOTES IN GLOBAL FORM.....	32
FORM OF FINAL TERMS	36
USE OF PROCEEDS.....	45
THE CZECH REPUBLIC	46
THE CZECH ECONOMY.....	52
BALANCE OF PAYMENTS AND FOREIGN TRADE	55
PRIVATISATION AND TRANSFORMATION INSTITUTIONS.....	59
MONETARY AND FINANCIAL SYSTEM	61
PUBLIC FINANCE	68
GENERAL GOVERNMENT DEBT	73
CZECH LEGAL MATTERS	78
TAXATION	79
SUBSCRIPTION AND SALE.....	81
GENERAL INFORMATION	83

OVERVIEW OF THE PROGRAMME

The following is a brief overview of key features of the Programme only, does not purport to be complete and should be read in conjunction with the rest of this Offering Circular and, in relation to any Notes, in conjunction with the relevant Final Terms and, to the extent applicable, the Terms and Conditions of the Notes set out herein.

Issuer:	The Czech Republic acting through the Ministry of Finance.
Arrangers:	Barclays Bank PLC and Deutsche Bank AG, London Branch.
Dealers:	Barclays Bank PLC, Deutsche Bank AG, London Branch, and any other dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche (as defined below) of Notes.
Paying Agent and Transfer Agent:	Citibank, N.A.
Fiscal Agent:	Citibank, N.A.
Registrar:	Citigroup Global Markets Deutschland AG & Co. KGaA.
Luxembourg Listing Agent:	Dexia Banque Internationale à Luxembourg, société anonyme.
Initial Programme Amount:	€10,000,000,000 (and, for this purpose, any Notes denominated in another currency shall be translated into €10,000,000,000 at the date of the agreement to issue such Notes using the spot rate of exchange for the purchase of such currency against payment of euro being quoted by the Fiscal Agent on the date on which the relevant agreement in respect of the relevant Tranche (as defined below) was made or such other rate as the Issuer and the relevant Dealer may agree) in aggregate principal amount of Notes outstanding at any one time. The maximum aggregate principal amount of Notes permitted to be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under “ <i>Subscription and Sale</i> ”.
Issuance in Series:	Notes will be issued in series (each, a “ Series ”). Each Series may comprise one or more tranches (the “ Tranches ” and each, a “ Tranche ”) issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.
Form of Notes:	Notes may be issued in bearer form or in registered form. In respect of each Tranche of Notes in bearer form, the Notes will be initially issued in the form of a temporary global note (a “ Temporary Global Note ”) or, if so specified in the relevant Final Terms, a permanent global Note (a “ Permanent Global Note ” and, together with the Temporary Global Note, the “ Global Notes ”) which, in either case will: (a) if the Global Notes are intended to be issued in new global note (“ NGN ”) form, as stated in the applicable Final Terms, be delivered on or prior to the relevant issue date of the Tranche to a common safekeeper (the “ Common Safekeeper ”) for Euroclear Bank S.A./N.V. (“ Euroclear ”) and Clearstream Banking, société anonyme (“ Clearstream, Luxembourg ”), and (b) if the Global Notes are not intended to be issued in NGN form (classic global note, a “ CGN ”), be delivered on or prior to the relevant issue date of the Tranche to a common depositary (the “ Common Depositary ”) for Euroclear and/or Clearstream, Luxembourg. Each Temporary Global Note will be exchangeable for a Permanent Global Note or,

if so specified in the relevant Final Terms, for Notes in definitive bearer form (“**Definitive Notes**”) and/or (if so specified in the relevant Final Terms) registered form in accordance with its terms (“**Registered Notes**”). Each Permanent Global Note will be exchangeable for Definitive Notes and/or (if so specified in the relevant Final Terms) Registered Notes in accordance with its terms. See further under “*Provisions Relating to the Notes in Global Form*” below. Definitive Notes will, if interest-bearing, either have interest coupons (“**Coupons**”) attached and, if appropriate, a talon (“**Talon**”) for further Coupons and will, if the principal thereof is repayable by instalments, have payment receipts (“**Receipts**”) attached. Each Note issued in registered form shall represent the entire holding of Registered Notes by the same holder. A Registered Note may be registered in the name of a nominee for one or more clearing systems and such a Note is referred to herein as a “**Global Registered Note**”. Notes in registered form may not be exchanged for Notes in bearer form.

Currencies:	Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Status and Ranking of Notes:	Notes issued will constitute direct, general and unconditional obligations of the Issuer which will at all times rank <i>pari passu</i> among themselves and at least <i>pari passu</i> with all other present and future unsecured obligations of the Issuer save for such obligations as may be preferred by provisions of law that are mandatory and of general application to creditor rights.
Issue Price:	Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms.
Maturities:	<p>Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.</p> <p>Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their business; or (ii) be issued in other circumstances which do not constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the Issuer.</p>
Redemption:	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula or otherwise) as may be specified in the relevant Final Terms.
Early Redemption:	Early redemption will be permitted as mentioned in the Terms and Conditions of the Notes under “ <i>Optional Early Redemption (Call)</i> ” and “ <i>Optional Early Redemption (Put)</i> ”, only to the extent specified in the relevant Final Terms.
Interest:	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed or floating rate and may vary during the lifetime of the relevant Series.

Denominations:	Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Taxation:	All payments in respect of Notes will be made free and clear of withholding taxes of the Czech Republic, unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 8) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
Redenomination:	In respect of any Tranche of Notes, if the country of the Specified Currency becomes or, announces its intention to become, a Participating Member State, the Notes may be redenominated in euro in accordance with Condition 18 if so specified in the relevant Final Terms.
Negative Pledge:	Notes will have the benefit of a negative pledge in relation to Public External Indebtedness of the Issuer, all as more fully described in Condition 4.
Governing Law:	The Notes and all related contractual documentation will be governed by, and construed in accordance with, English law.
Listing:	Each Series may be listed on the Luxembourg Stock Exchange and/or any other stock exchange as may be agreed between the Issuer and the relevant Dealer and specified in the relevant Final Terms or may be unlisted.
Terms and Conditions:	Final Terms will be prepared in respect of each Tranche of Notes a copy of which will, in the case of Notes to be listed on the Luxembourg Stock Exchange be delivered to the Luxembourg Stock Exchange on or before the date of issue of such Notes. The terms and conditions applicable to each Tranche will be those set out herein under “ <i>Terms and Conditions of the Notes</i> ” as supplemented, modified or replaced by the relevant Final Terms.
Enforcement of Notes in Global Form:	In the case of Notes in global form, individual investors’ rights will be governed by a Deed of Covenant dated 23 May 2008, a copy of which will be available for inspection at the specified office of the Fiscal Agent.
Clearing Systems:	Euroclear, Clearstream, Luxembourg and/or, in relation to any Notes, any other clearing system as may be specified in the relevant Final Terms.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering materials in the United States of America, the Czech Republic and the United Kingdom, see “ <i>Subscription and Sale</i> ”.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which, as supplemented, modified or replaced in relation to any Notes by the relevant Final Terms, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “Summary of Provisions Relating to the Notes while in Global Form” below.

Introduction

(a) Programme

The Czech Republic acting through the Ministry of Finance (the “**Issuer**”) has established a programme (the “**Programme**”) for the issuance of up to €10,000,000,000 (or its equivalent in other currencies) in aggregate principal amount of notes (the “**Notes**”).

(b) Fiscal Agency Agreement

The Notes are issued pursuant to and in accordance with a fiscal agency agreement dated 23 May 2008, as amended, supplemented or replaced from time to time (the “**Fiscal Agency Agreement**”) and made between the Issuer, Citibank, N.A., as Fiscal Agent (the “**Fiscal Agent**”, which expression shall include any successor fiscal agent appointed from time to time in connection with the Notes), Citigroup Global Markets Deutschland AG & Co. KGaA, as Registrar (the “**Registrar**”), which expression shall include any successor registrar appointed from time to time in connection with the Notes) and Citibank, N.A., as paying agent (together with the Fiscal Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). For the purposes of making determinations or calculations of interest rates, interest amounts, redemption amounts or any other matters requiring determination or calculation in accordance with the Conditions of any Series of Notes (as defined below), the Issuer may appoint a calculation agent (the “**Calculation Agent**”) for the purposes of such Notes, in accordance with the provisions of the Fiscal Agency Agreement, and such Calculation Agent shall be specified in the applicable Final Terms.

(c) Deed of Covenant

The Notes have the benefit of a deed of covenant dated 23 May 2008 (as amended, supplemented or replaced, the “**Deed of Covenant**”) executed by the Issuer in relation to the Notes.

Copies of the Fiscal Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents, the Registrar and the Transfer Agents. All persons from time to time entitled to the benefit of obligations under any Notes shall be deemed to have notice of, and shall be bound by, all of the provisions of the Fiscal Agency Agreement and the Deed of Covenant insofar as they relate to the relevant Notes.

(d) Final Terms

Notes issued under the Programme are issued in series (each, a “**Series**”), and each Series may comprise one or more tranches (the “**Tranches**” and each, a “**Tranche**”) of Notes. Each Tranche will be the subject of the relevant final terms (the “**Final Terms**”), which supplements these terms and conditions (the “**Conditions**”). Copies of the relevant Final Terms will be available during normal business hours at the specified office of the Fiscal Agent and/or, as the case may be, the Registrar. In the case of a Tranche of Notes in relation to which application has not been made for listing on any stock exchange, copies of the Final Terms will only be available by a Holder of or, as the case may be, a Relevant Account Holder (as defined in the Deed of Covenant) in respect of, such Notes.

(e) The Notes

References in these Terms and Conditions to Notes are to Notes of the relevant Series and any references to Coupons (as defined in Condition 1.2) and Receipts (as defined in Condition 1.3) are to Coupons and Receipts relating to Notes of the relevant Series. References in these Terms and Conditions to the Final Terms are to the Final Terms prepared in relation to the Notes of the relevant Tranche or Series.

The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail. In respect of any Notes, references herein to these Terms and Conditions are to these terms and conditions as supplemented, modified or (to the extent thereof) replaced by the Final Terms.

1. Form and Denomination

Form of Notes

- 1.1 Notes are issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”), as specified in the Final Terms and are serially numbered. Registered Notes are not exchangeable for Bearer Notes. In respect of each Tranche of Notes in bearer form, the Notes will be initially issued in the form of a temporary global note (a “**Temporary Global Note**”) or, if so specified in the relevant Final Terms, a permanent global Note (a “**Permanent Global Note**”) and, together with the Temporary Global Note, the “**Global Notes**”) which, in either case will:
- (a) if the Global Notes are intended to be issued in new global note (“**NGN**”) form, as stated in the applicable Final Terms, be delivered on or prior to the relevant issue date of the Tranche to a common safekeeper (the “**Common Safekeeper**”) for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”), and
 - (b) if the Global Notes are not intended to be issued in NGN form (classic global note, a “**CGN**”), be delivered on or prior to the relevant issue date of the Tranche to a common depository (the “**Common Depository**”) for Euroclear and/or Clearstream, Luxembourg.

Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Notes in definitive bearer form (“**Definitive Notes**”) and/or (if so specified in the relevant Final Terms) Registered Notes. Each Permanent Global Note will be exchangeable for Definitive Notes and/or (if so specified in the relevant Final Terms) Registered Notes in accordance with its terms. Each Note issued in registered form shall represent the entire holding of Registered Notes by the same holder. A Registered Note may be registered in the name of a nominee for one or more clearing systems and such a Note is referred to herein as a “**Global Registered Note**”.

- 1.2 Interest-bearing Bearer Notes have attached thereto at the time of their initial delivery coupons (“**Coupons**”), presentation of which will be a prerequisite to the payment of interest save in certain circumstances specified herein. In addition, if so specified in the Final Terms, such Notes have attached thereto at the time of their initial delivery, a talon (“**Talon**”) for further coupons and the expression “**Coupons**” shall, where the context so requires, include Talons.
- 1.3 Bearer Notes, the principal amount of which is repayable by instalments (“**Instalment Notes**”) have attached thereto at the time of their initial delivery, payment receipts (“**Receipts**”) in respect of the instalments of principal.

Denomination of Bearer Notes

- 1.4 Bearer Notes are in the specified Denomination or specified Denominations (each of which denomination is integrally divisible by each smaller denomination) specified in the Final Terms. Bearer Notes of one denomination may not be exchanged for Bearer Notes of any other denomination.

Denomination of Registered Notes

- 1.5 Registered Notes are in the minimum specified Denomination specified in the Final Terms or integral multiples thereof.

Currency of Notes

- 1.6 The Notes are denominated in such currency as may be specified in the Final Terms. Any currency may be so specified, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Partly Paid Notes

- 1.7 Notes may be issued on a partly paid basis (“**Partly Paid Notes**”) if so specified in the Final Terms. The subscription moneys therefore shall be paid in such number of instalments (“**Partly Paid Instalments**”) in such amounts, on such dates and in such manner as may be specified in the Final Terms. The first such instalments shall be due and payable on the date of issue of the Notes. For the purposes of these Terms and Conditions, in respect of any Partly Paid Note, “**Paid Up Amount**” means the aggregate amount of all Partly Paid Instalments in respect thereof as shall have fallen due and been paid up in full in accordance with the Terms and Conditions.

Not less than 14 days nor more than 30 days prior to the due date for payment of any Partly Paid Instalment (other than the first such instalment) the Issuer shall publish a notice in accordance with Condition 14 stating the due date for payment thereof and stating that failure to pay any such Partly Paid Instalment on or prior to such date will entitle the Issuer to forfeit the Notes with effect from such date (the “**Forfeiture Date**”) as may be specified in such notice (not being less than 14 days after the due date for payment of such Partly Paid Instalment), unless payment of the relevant Partly Paid Instalment together with any interest accrued thereon is paid prior to the Forfeiture Date. The Issuer shall procure that any Partly Paid Instalments paid in respect of any Notes subsequent to the Forfeiture Date in respect thereof shall be returned promptly to the persons entitled thereto. The Issuer shall not be liable for any interest on any Partly Paid Instalment so returned.

Interest shall accrue on any Partly Paid Instalment which is not paid on or prior to the due date for payment thereof at the Interest Rate (in the case of non-interest bearing Notes, at the rate applicable to overdue payments) and shall be calculated in the same manner and on the same basis as if it were interest accruing on the Notes for the period from and including the due date for payment of the relevant Partly Paid Instalment up to but excluding the Forfeiture Date. For the purpose of the accrual of interest, any payment of any Partly Paid Instalment made after the due date for payment shall be treated as having been made on the day preceding the Forfeiture Date (whether or not a Business Day as defined in Condition 5.11).

Unless an Event of Default (or an event which with the giving of notice, the lapse of time or the making or giving of any determination or certification would constitute an Event of Default) shall have occurred and be continuing, on the Forfeiture Date, the Issuer shall forfeit all of the Notes in respect of which any Partly Paid Instalment shall not have been duly paid, whereupon the Issuer shall be entitled to retain all Partly Paid Instalments previously paid in respect of such Notes and shall be discharged from any obligation to repay such amount or to pay interest thereon.

2. Title and Transfer

- 2.1 Title to Bearer Notes, Receipts and Coupons passes by delivery. References herein to the “**Holders**” of Bearer Notes or of Receipts or Coupons are to the bearers of such Bearer Notes or such Receipts or Coupons.
- 2.2 Title to Registered Notes passes by registration in the register which the Issuer shall procure to be kept by the Registrar. For the purposes of these Terms and Conditions, “**Registrar**” means, in relation to any Series comprising Registered Notes, the Principal Registrar, the First Alternative Registrar or, as the case may be, the Second Alternative Registrar, as specified in the Final Terms, provided always that where such Series is listed on the Luxembourg Stock Exchange, “**Registrar**” shall mean the Second Alternative Registrar. References herein to the “**Holders**” of Registered Notes are to the persons in whose names such Registered Notes are so registered in the relevant register.
- 2.3 The Holder of any Bearer Note, Coupon or Registered Note will (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest thereof or therein, any writing thereon, or any theft or loss thereof) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

Transfer of Registered Notes and exchange of Bearer Notes for Registered Notes

- 2.4 A Registered Note may, upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement, be transferred in whole or in part only (provided that such part is, or is an integral multiple of, the minimum denomination specified in the Final Terms) upon the surrender of the Registered Note to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar or any Transfer Agent. A new Registered Note will be issued to the transferee and, in the case of a transfer of part only of a Registered Note, a new Registered Note in respect of the balance not transferred will be issued to the transferor.
- 2.5 If so specified in the Final Terms, the Holder of Bearer Notes may exchange the same for the same aggregate principal amount of Registered Notes upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement. In order to exchange a Bearer Note for a Registered Note, the Holder thereof shall surrender such Bearer Note at the specified office outside the United States or its possessions of the Fiscal Agent, the Registrar or of any Transfer Agent together with a written

request for the exchange. Each Bearer Note so surrendered must be accompanied by all unmatured Receipts and Coupons appertaining thereto other than the Coupon in respect of the next payment of interest falling due after the exchange date (as defined in Condition 2.6) where the exchange date would, but for the provisions of Condition 2.6 occur between the Record Date (as defined in Condition 9B.3) for such payment of interest and the date on which such payment of interest falls due.

- 2.6 Each new Registered Note to be issued upon the transfer of a Registered Note or the exchange of a Bearer Note for a Registered Note will, within three Relevant Banking Days of the transfer date or, as the case may be, the exchange date be available for collection by each relevant Holder at the specified office of the Registrar or any Transfer Agent or, at the option of the Holder requesting such exchange or transfer be mailed (by uninsured post at the risk of the Holder(s) entitled thereto) to such address(es) as may be specified by such Holder. For these purposes, a form of transfer or request for exchange received by the Registrar, the Fiscal Agent or any Transfer Agent after the Record Date in respect of any payment due in respect of Registered Notes shall be deemed not to be effectively received by the Registrar, Fiscal Agent or any Transfer Agent until the day following the due date for such payment. For the purposes of these Terms and Conditions:
- (i) the “**Relevant Banking Day**” means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Registrar is located and, in the case only of an exchange of a Bearer Note for a Registered Note where such request for exchange is made to the Fiscal Agent, in the place where the specified office of the Fiscal Agent or the Transfer Agent is located;
 - (ii) the “**exchange date**” shall be the Relevant Banking Day following the day on which the relevant Bearer Note shall have been surrendered for exchange in accordance with Condition 2.5; and
 - (iii) the “**transfer date**” shall be the Relevant Banking Day following the day on which the relevant Registered Note shall have been surrendered for transfer in accordance with Condition 2.4.
- 2.7 The issue of new Registered Notes on transfer or on the exchange of Bearer Notes for Registered Notes will be effected without charge by or on behalf of the Issuer, the Fiscal Agent, the Registrar or the Transfer Agent, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer, the Fiscal Agent, the Registrar or the Transfer Agent may require in respect of) any tax, duty or other governmental charges which may be imposed in relation thereto.
- 2.8 All transfers of Registered Notes, exchange of Bearer Notes for Registered Notes and entries on the Register are subject to the detailed regulations and certain closed periods concerning the transfer and/or exchange of Notes scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed free of charge by the Registrar to any Holder who requests in writing a copy of such regulations.

3. Status of the Notes

The Notes constitute direct, general and unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves and at least *pari passu* with all other unsubordinated and unsecured obligations of the Issuer, present and future, save for such obligations as may be preferred by provisions of law that are mandatory and of general application to creditor rights.

4. Negative Pledge

The Issuer undertakes that so long as any of the Notes remain outstanding (as defined in the Fiscal Agency Agreement), the Issuer shall not create nor permit to subsist any Security Interest upon the whole or any part of its present or future assets or revenues to secure any Public External Indebtedness or any Guarantee of any Public External Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing such other security for the Notes as may be approved by an Extraordinary Resolution of Holders.

For the purposes of this Condition 4:

“**Guarantee**” means any guarantee of, or indemnity in respect of, indebtedness or other like obligation.

“**Public External Indebtedness**” means any present or future indebtedness for borrowed money which is in the form of, or represented by, bonds, notes, debentures or loan stock or other securities and which is, or is capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market and which is denominated or payable (or at the option of the relevant creditor or holder thereof may be payable), in a currency other than the lawful currency of the Czech Republic provided that, if at any time the lawful currency of the Czech Republic is the euro, then any indebtedness for borrowed money as described herein, expressed in or payable or optionally payable in euro, more than 50 per cent. of the aggregate principal amount of which is initially placed outside the Czech Republic and issued after the date on which the euro becomes the lawful currency of the Czech Republic, shall be included.

“**Security Interest**” means any mortgage, charge, pledge, lien or other security interest.

5. Interest

Interest

5.1 Notes may be interest-bearing or non interest-bearing (zero coupon), as specified in the Final Terms. Words and expressions appearing in this Condition 5 and not otherwise defined herein or in the Final Terms shall have the meanings given to them in Condition 5.11.

Interest-bearing Notes

5.2 Notes which are specified in the Final Terms as being interest-bearing shall bear interest from their Interest Commencement Date at the Interest Rate payable in arrear on each Interest Payment Date.

Fixed Rate Notes

5.3 If the Final Terms specify the Interest Rate applicable to the Notes as being Fixed Rate, the amount of interest payable in respect of each Note for any Interest Period shall be the relevant fixed Coupon Amount per Calculation Amount as specified in the relevant Final Terms.

Floating Rate Notes

5.4 If the Final Terms specify the Interest Rate applicable to the Notes as being Floating Rate, the Interest Rate applicable to the Notes for each Interest Accrual Period will be determined by the Calculation Agent on the following basis:

- (i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
 - (A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and
 - (B) determine the arithmetic mean of such quotations; and
- (iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Accrual Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Accrual Period and in an amount that is representative for a single transaction in that market at that time,

and the Interest Rate applicable to such Notes during each Interest Accrual Period will be the sum of the relevant margin (the “**Relevant Margin**”) specified in the Final Terms and the rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of the rates) so determined provided, however, that, if the Calculation Agent is unable to determine a rate (or, as the case may be, an arithmetic mean of rates) in accordance with the above provisions in relation to any Interest Accrual Period, the Interest Rate applicable to such Notes during such Interest Accrual Period will be the sum of the Relevant Margin and the rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of the rates) determined in relation to such Notes in respect of the last preceding Interest Accrual Period.

ISDA Rate Notes

- 5.5 If the Final Terms specify the Interest Rate applicable to the Notes as being ISDA Rate, each Note shall bear interest as from such date, and at such rate or in such amounts, and such interest will be payable on such dates, as would have applied (regardless of any event of default or termination event or tax event thereunder) if the Issuer had entered into an interest rate swap transaction with the Holder of such Note under the terms of an agreement to which the ISDA Definitions applied and under which:
- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
 - (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and
 - (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.

Index-Linked Notes

- 5.6 If the Final Terms specify the Interest Rate applicable to the Notes as being Index-Linked, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Final Terms.

Maximum or Minimum Interest Rate

- 5.7 If any Maximum or Minimum Interest Rate is specified in the Final Terms, then the Interest Rate shall in no event be greater than the maximum or be less than the minimum so specified.

Accrual of Interest

- 5.8 Interest shall accrue on the Outstanding Principal Amount of each Note during each Interest Accrual Period from the Interest Commencement Date. Interest will cease to accrue as from the due date for redemption therefore (or, in the case of an Instalment Note, in respect of each instalment of principal, on the due date for payment of the relevant Instalment Amount) unless upon due presentation or surrender thereof (if required), payment in full of the Redemption Amount (as defined in Condition 6.9) or the relevant Instalment Amount is improperly withheld or refused or default is otherwise made in the payment thereof in which case interest shall continue to accrue on the principal amount in respect of which payment has been improperly withheld or refused or default has been made (as well after as before any demand or judgment) at the Interest Rate then applicable or such other rate as may be specified for this purpose in the Final Terms until the date on which, upon due presentation or surrender of the relevant Note (if required), the relevant payment is made or, if earlier (except where presentation or surrender of the relevant Note is not required as a precondition of payment), the seventh day after the date on which, the Fiscal Agent, the Registrar or, as the case may be, the Transfer Agent having received the funds required to make such payment, notice is given to the Holders of the Notes in accordance with Condition 15 that the Fiscal Agent, the Registrar or, as the case may be, the Transfer Agent has received the required funds (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder).

Interest Amount(s), Calculation Agent and Reference Banks

- 5.9 If a Calculation Agent is specified in the Final Terms, the Calculation Agent, as soon as practicable after the Relevant Time on each Interest Determination Date (or such other time on such date as

the Calculation Agent may be required to calculate any Redemption Amount or Instalment Amount, obtain any quote or make any determination or calculation) will determine the Interest Rate and calculate the amount(s) of interest payable (the “**Interest Amount(s)**”) per Calculation Amount for the relevant Interest Accrual Period, calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date or, as the case may be, the Redemption Amount or any Instalment Amount, to be notified to the Fiscal Agent, the Registrar or any Transfer Agent (in the case of Registered Notes), the Issuer, the Holders in accordance with Condition 14 and, if the Notes are listed on a stock exchange and the rules of such exchange so requires, such exchange as soon as possible after their determination or calculation, but in no event later than the fourth London Banking Day thereafter or, if earlier in the case of notification to the stock exchange, the time required by the rules of the relevant stock exchange which is, for the Luxembourg Stock Exchange, the first day of the relevant period. The Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of an Interest Accrual Period or the Interest Period. If the Notes become due and payable under Condition 7, the Interest Rate and the accrued interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Interest Rate or the Interest Amount so calculated need be made. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Calculation Agent shall (in the absence of manifest error) be final and binding upon the Issuer and the Holders and neither the Calculation Agent nor any Reference Bank shall have any liability to the Holders in respect of any determination, calculation, quote or rate made or provided by it.

The Issuer will procure that there shall at all times be such Reference Banks as may be required for the purpose of determining the Interest Rate applicable to the Notes and a Calculation Agent, if provision is made for one in the Terms and Conditions.

If the Calculation Agent is incapable or unwilling to act as such or if the Calculation Agent fails duly to establish the Interest Rate for any Interest Accrual Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint the London office of a leading bank engaged in the London interbank market to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

Calculations and Adjustments

5.10 The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Interest Rate and the Outstanding Principal Amount by the Day Count Fraction, save that if the Final Terms specifies a specific amount in respect of such period, the amount of interest payable in respect of such Note for such period will be equal to such specified amount. Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period will be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

For the purposes of any calculations referred to in these Terms and Conditions (unless otherwise specified in the Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.) and (b) all Relevant Currency amounts used in or resulting from such calculation, will be rounded to the nearest sub-unit of the Relevant Currency (half a sub-unit being rounded upwards). For this purpose, a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the currency of such country and, in the case of euro, means one cent.

Definitions

5.11 “**Additional Business Centre(s)**” means the city or cities specified as such in the relevant Final Terms;

“**Applicable Business Day Convention**” means the “**Business Day Convention**” which may be specified in the Final Terms as applicable to any date in respect of the Notes. Where the Final Terms specifies “**No Adjustment**” in relation to any date, such date shall not be adjusted in

accordance with any Business Day Convention. Where the Final Terms fails either to specify an applicable Business Day Convention or “**No Adjustment**” for the purposes of an Interest Payment Date or an Interest Period End Date, then in the case of Notes which bear interest at a fixed rate, “**No Adjustment**” shall be deemed to have been so specified and in the case of Notes which bear interest at a floating rate, the Modified Following Business Day Convention shall be deemed to have been so specified. Different Business Day Conventions may apply, or be specified in relation to, the Interest Payment Dates, Interest Period End Dates and any other date or dates in respect of any Notes;

“**Banking Day**” means, in respect of any city, any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in that city;

“**Business Day**” means:

- (i) in relation to any sum payable in euro, a Target Business Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and
- (ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets are open for business and settle payments in the Principal Financial Centre in respect of the relevant Notes and in each (if any) Additional Business Centre;

“**Business Day Convention**” means a convention for adjusting any date if it would otherwise fall on a day that is not a Business Day and the following Business Day Conventions, where specified in the Final Terms in relation to any date applicable to any Notes, shall have the following meanings:

- (i) “**Following Business Day Convention**” means that such date shall be postponed to the first following day that is a Business Day;
- (ii) “**Modified Following Business Day Convention**” or “**Modified Business Day Convention**” means that such date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (iii) “**Preceding Business Day Convention**” means that such date shall be brought forward to the first preceding day that is a Business Day; and
- (iv) “**FRN Convention**”, “**Floating Rate Convention**” or “**Eurodollar Convention**” means that each such date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the Final Terms after the calendar month in which the preceding such date occurred provided that:
 - (a) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (b) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
 - (c) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred;

“**Calculation Amount**” means such amount as specified in the Final Terms;

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the “**Calculation Period**”):

- (i) if “**Actual/Actual (ISDA)**” or “**Actual/Actual**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the

Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

- (ii) if “**Actual/365 (Fixed)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “**Actual/365 (Sterling)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “**Actual/360**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (vi) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30;

- (vii) if “**30E/360 (ISDA)**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls:

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and D₂ will be 30.

“**Interest Accrual Period**” means, in respect of an Interest Period, each successive period beginning on and including an Interest Period End Date and ending on but excluding the next succeeding Interest Period End Date during that Interest Period provided always that the first Interest Accrual Period shall commence on and include the Interest Commencement Date and the final Interest Accrual Period shall end on but exclude the date of final maturity;

“**Interest Commencement Date**” means the date of issue of the Notes (as specified in the Final Terms) or such other date as may be specified as such in the Final Terms;

“**Interest Determination Date**” means, in respect of any Interest Accrual Period, the date falling such number (if any) of Banking Days in such city(ies) as may be specified in the Final Terms prior to the first day of such Interest Accrual Period, or if none is specified:

- (i) in the case of Notes denominated in Pounds Sterling, the first day of such Interest Accrual Period; or
- (ii) in the case of Notes denominated (or redenominated) in euro, the date falling two Target Business Days prior to the first day of such Interest Accrual period; or
- (iii) in any other case, the date falling two London Banking Days prior to the first day of such Interest Accrual Period;

“**Interest Payment Date**” means the date or dates specified as such in, or determined in accordance with the provisions of, the Final Terms and, if an Applicable Business Day Convention is specified in the Final Terms, as the same may be adjusted in accordance with the Applicable Business Day Convention or if the Applicable Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the Final Terms as being the Interest Period, each of such dates as may occur in accordance with the FRN Convention at such specified period of calendar months following the date of issue of the Notes (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

“**Interest Period**” means each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date provided always that the first Interest Period shall commence on and include the Interest Commencement Date and the final Interest Period shall end on but exclude the date of final maturity;

“**Interest Period End Date**” means the date or dates specified as such in, or determined in accordance with the provisions of, the Final Terms and, if an Applicable Business Day Convention is specified in the Final Terms, as the same may be adjusted in accordance with the Applicable Business Day Convention or, if the Applicable Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the Final Terms as the Interest Accrual Period, such dates as may occur in accordance with the FRN Convention at such specified period of calendar months following the Interest Commencement Date (in the case of the first Interest Period End Date) or the previous Interest Period End Date (in any other case) or, if none of the foregoing is specified in the Final Terms, means the date or each of the dates which correspond with the Interest Payment Date(s) in respect of the Notes;

“**Interest Rate**” means the rate or rates (expressed as a percentage per annum) or amount or amounts (expressed as a price per unit of Specified Currency) of interest payable in respect of the Notes specified in, or calculated or determined in accordance with the provisions of, the Final Terms;

“**ISDA Definitions**” means the 2006 ISDA Definitions as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the Final Terms) as published by the International Swaps and Derivatives Association, Inc;

“**Outstanding Principal Amount**” means, in respect of a Note, its principal amount less in respect of any Instalment Note, any principal amount on which interest shall have ceased to accrue in accordance with Condition 5.6 or, in the case of a Partly Paid Note, the Paid Up Amount of such Note or otherwise as indicated in the Final Terms except that the Paid Up Amount shall be deemed to be nil for Notes which have been forfeited by the Issuer on or after the Forfeiture Date as provided for in Condition 1.7;

“**Participating Member State**” means a member state of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

“**Principal Financial Centre**” means, in relation to any currency, the principal financial centre for that currency provided, however, that:

- (i) in relation to euro, it means the principal financial centre of such Member State of the European Community as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (ii) in relation to Australian dollars, it means both Sydney and Melbourne and, in relation to New Zealand dollars, it means both Wellington and Auckland; in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

“**Reference Banks**” has the meaning given in the relevant Final Terms or, if none, four (or if the Principal Financial Centre is Helsinki, five) major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

“**Reference Rate**” has the meaning given to it in the relevant Final Terms;

“**Relevant Financial Centre**” has the meaning given to it in the relevant Final Terms;

“**Relevant Screen Page**” means the page, section or other part of a particular information service (including, without limitation, the Reuter Money 3000 Service and the Telerate Service) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

“**Relevant Time**” means the time as of which any rate is to be determined as specified in the Final Terms or, if none is specified, at which it is customary to determine such rate;

“**Specified Currency**” has the meaning given in the relevant Final Terms;

“**Target Business Day**” means a day on which the Target System is open;

“**Target System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (Target) System or any successor thereto; and

“**Treaty**” means the Treaty establishing the European Community, as amended by the Treaty on European Union.

Zero Coupon Notes

- 5.12 If any Redemption Amount (as defined in Condition 6.9) or Instalment Amount in respect of any Note which is non-interest bearing is not paid when due, interest shall accrue on the overdue amount at a rate per annum (expressed as a percentage per annum) equal to the Amortisation Yield defined in, or determined in accordance with the provisions of, the Final Terms or at such other rate as may be specified for this purpose in the Final Terms until the date on which, upon due presentation or surrender of the relevant Note (if required), the relevant payment is made or, if earlier (except where presentation or surrender of the relevant Note is not required as a precondition of payment), the seventh day after the date on which, the Fiscal Agent or, as the case

may be, the Registrar having received the funds required to make such payment, notice is given to the Holders of the Notes in accordance with Condition 15 that the Fiscal Agent or, as the case may be, the Registrar has received the required funds (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder). The amount of any such interest shall be calculated in accordance with the provisions of Condition 5.10 as if the Interest Rate was the Amortisation Yield, the Outstanding Principal Amount was the overdue sum and the Day Count Fraction was as specified for this purpose in the Final Terms or, if not so specified, 30E/360 (as defined in Condition 5.11).

6. Redemption and Purchase

Redemption at Maturity

- 6.1 Unless previously redeemed, or purchased and cancelled or unless such Note is stated in the Final Terms as having no fixed maturity date, each Note shall be redeemed at its maturity redemption amount (the “**Maturity Redemption Amount**”) (which shall be its Outstanding Principal Amount or such other redemption amount as may be specified in or determined in accordance with the Final Terms) (or, in the case of Instalment Notes, in such number of instalments and in such amounts (“**Instalment Amounts**”) as may be specified in, or determined in accordance with the provisions of, the Final Terms) on the date or dates (or, in the case of Notes which bear interest at a floating rate of interest, on the date or dates upon which interest is payable) specified in the Final Terms.

Optional Early Redemption (Call)

- 6.2 If this Condition 6.2 is specified in the Final Terms as being applicable, then the Issuer may, having given the appropriate notice and subject to such conditions as may be specified in the Final Terms, redeem all (but not, unless and to the extent that the Final Terms specifies otherwise, some only) of the Notes of the relevant Series at their call early redemption amount (the “**Early Redemption Amount (Call)**”) (which shall be their Outstanding Principal Amount or, in the case of Notes which are non-interest bearing, their Amortised Face Amount (as defined in Condition 6.10) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms), together with accrued interest (if any) thereon on the date specified in such notice. In the event any Notes of the relevant Series are redeemed pursuant to Condition 6.2 (so long as such Notes are listed on the Luxembourg Stock Exchange) the Issuer shall inform the Luxembourg Stock Exchange of such early redemption.

The Issuer may not exercise such option in respect of any Note which is the subject of the prior exercise by the Holder thereof of its option to require the redemption of such Note under Condition 6.5.

- 6.3 The appropriate notice referred to in Condition 6.2 is a notice given by the Issuer to the Holders of the Notes of the relevant Series in accordance with Condition 14, which notice shall be irrevocable and shall specify:
- the Series of Notes subject to redemption;
 - whether such Series is to be redeemed in whole or in part only and, if in part only, the aggregate principal amount of and (except in the case of a Temporary Global Note or Permanent Global Note) the serial numbers of the Notes of the relevant Series which are to be redeemed;
 - the due date for such redemption, which shall be not less than thirty days nor more than sixty days after the date on which such notice is given and which shall be such date or the next of such dates (the “**Call Option Date(s)**”) or a day falling within such period (the “**Call Option Period**”), as may be specified in the Final Terms and which is, in the case of Notes which bear interest at a floating rate, a date upon which interest is payable; and
 - the Early Redemption Amount (Call) at which such Notes are to be redeemed.

Partial Redemption

- 6.4 If the Notes of a Series are to be redeemed in part only on any date in accordance with Condition 6.2, the Notes to be redeemed (the “**Redeemed Notes**”) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount,

at their discretion), in the case of Redeemed Notes represented by a Global Note, not more than thirty days prior to the date fixed for redemption (such date of selection being hereinafter called the “**Selection Date**”). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than fifteen days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6.4 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date. In the case of Registered Notes, each Registered Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Registered Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Registered Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

Optional Early Redemption (Put)

6.5 If this Condition 6.5 is specified in the Final Terms as being applicable, then the Issuer shall, upon the exercise of the relevant option by the Holder of any Note of the relevant Series, redeem such Note on the date specified in the relevant Put Notice (as defined below) at its put early redemption amount (the “**Early Redemption Amount (Put)**”) (which shall be its Outstanding Principal Amount or, if such Note is non-interest bearing, its Amortised Face Amount (as defined in Condition 6.10) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms), together with accrued interest (if any) thereon. In order to exercise such option, the Holder must, not less than forty-five days before the date on which such redemption is required to be made as specified in the Put Notice (which date shall be such date or the next of the dates (the “**Put Date(s)**”) or a day falling within such period (the “**Put Period**”) as may be specified in the Final Terms), deposit the relevant Note (together, in the case of an interest-bearing Note in bearer form, with all unmatured Coupons appertaining thereto other than any Coupon maturing on or before the date of redemption (failing which the provisions of Condition 9A.6 apply)) during normal business hours at the specified office of, in the case of a Bearer Note, any Paying Agent or, in the case of a Registered Note, the Registrar or any Transfer Agent together with a duly completed early redemption notice (the “**Put Notice**”) in the form which is available from the specified office of any of the Paying Agents, the Registrar or, as the case may be any Transfer Agent, specifying, in the case of a Registered Note, the aggregate principal amount in respect of which such option is exercised (which must be the minimum denomination specified in the Final Terms or an integral multiple thereof). No Note so deposited and option exercised may be withdrawn (except as provided in the Fiscal Agency Agreement). In the event any Notes of the relevant Series are redeemed pursuant to Condition 6.5 (so long as such Notes are listed on the Luxembourg Stock Exchange) the Issuer shall inform the Luxembourg Stock Exchange of such early redemption.

In the case of the redemption of part only of a Registered Note, a new Registered Note in respect of the unredeemed balance shall be issued in accordance with Conditions 2.4 to 2.9 which shall apply as in the case of a transfer of Registered Notes as if such new Registered Note were in respect of the untransferred balance.

The holder of a Note may not exercise such option in respect of any Note which is the subject of an exercise by the Issuer of its option to redeem such Note under Condition 6.2.

Purchase of Notes

6.6 Subject to compliance with applicable laws or regulations, the Issuer may at any time purchase Notes in the open market or otherwise and at any price provided that all unmatured Receipts and Coupons appertaining thereto are purchased therewith. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

Redeemed and Purchased Notes

6.7 All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 6.6 (together with

all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Paying Agent and cannot be reissued or resold.

Further Provisions applicable to Redemption Amount and Instalment Amounts

- 6.8 The provisions of Condition 5.3 and the last paragraph of Condition 5.10 shall apply to any determination or calculation of the Redemption Amount or any Instalment Amount required by the Final Terms to be made by the Calculation Agent (as defined in Condition 5.11).
- 6.9 References herein to “**Redemption Amount**” shall mean, as appropriate, the Maturity Redemption Amount, the final Instalment Amount, Early Redemption Amount (Call), Early Redemption Amount (Put) and Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms.
- 6.10 In the case of any Note which is non-interest bearing, the “**Amortised Face Amount**” shall be an amount equal to the sum of:
- (i) the Issue Price specified in the Final Terms; and
 - (ii) the product of the Amortisation Yield (compounded annually) being applied to the Issue Price from (and including) the Issue Date specified in the Final Terms to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of the Day Count Fraction (as defined in Condition 5.11) specified in the Final Terms for the purposes of this Condition 6.10.

- 6.11 In the case of any Zero Coupon (non-interest bearing) Note, if any Redemption Amount (other than the Maturity Redemption Amount) is improperly withheld or refused or default is otherwise made in the payment thereof, the Amortised Face Amount shall be calculated as provided in Condition 6.10 but as if references in subparagraph (ii) to the date fixed for redemption or the date upon which such Note becomes due and repayable were replaced by references to the earlier of:
- (i) the date on which, upon due presentation or surrender of the relevant Note (if required), the relevant payment is made; and
 - (ii) (except where presentation or surrender of the relevant Note is not required as a precondition of payment), the seventh day after the date on which, the Fiscal Agent or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the Holders of the Notes in accordance with Condition 15 of that circumstance (except to the extent that there is a failure in the subsequent payment thereof to the relevant Holder).

7. Events of Default

- 7.1 The following events or circumstances (each an “**Event of Default**”) shall be acceleration events in relation to the Notes of any Series, namely:
- (i) *Non-payment*: the Issuer fails to pay any amount of interest in respect of the Notes of the relevant Series or any of them within 30 days of the due date for payment thereof; or
 - (ii) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other material obligations under or in respect of the Notes of the relevant Series and such default remains unremedied for 45 days after written notice requiring such default to be remedied has been delivered to the Issuer at the specified office of the Fiscal Agent by the Holder of any such Note.
- 7.2 If any Event of Default shall occur in relation to any Series of Notes, all of the Notes may, by written notice addressed and delivered by the Holders of at least 25 per cent. of the aggregate principal amount of the outstanding Notes to the Fiscal Agent, be declared immediately due and payable whereupon, unless the Issuer shall have cured or otherwise rectified the Relevant Event they shall become immediately due and payable at the early termination amount of each Note (the “**Early Termination Amount**”) (which shall be its Outstanding Principal Amount or, if such Note is non-interest bearing, its Amortised Face Amount (as defined in Condition 6.10) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the

Final Terms), together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Holders.

- 7.3 If the Fiscal Agent receives notice in writing from Holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes and/or a resolution is passed at a meeting of Holders duly convened and held in accordance with the Fiscal Agency Agreement to the effect that the Event(s) of Default giving rise to such declaration is or are cured or is or are waived by them following any such declaration and that such Holders request the Fiscal Agent to rescind the relevant declaration, the Fiscal Agent shall, by notice in writing to the Issuer and the Holders, rescind the relevant declaration whereupon it shall be rescinded and shall have no further effect. No such rescission shall affect any other or any subsequent Event of Default or any right of any Holder in relation thereto.

8. Taxation

- 8.1 All amounts payable (whether in respect of principal, interest or otherwise) in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Czech Republic or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges (the “**Taxes**”) is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Holder after such withholding or deduction shall equal the respective amounts which would have been received by such Holder in the absence of such withholding or deduction; except that no such additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:
- (i) presented for payment by a Holder which is liable to such Taxes in respect of such Note or Coupon by reason of the Holder having some connection with the Czech Republic other than the mere holding of such Note or Coupon; or
 - (ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings or any law implementing or complying with, or introduced in order to conform to, such Directive; or
 - (iii) by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the EU; or
 - (iv) more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had presented such Note or Coupon on the last day of such period of 30 days.
- 8.2 For the purposes of these Terms and Conditions, the “**Relevant Date**” means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the monies payable has not been received by the Fiscal Agent, or as the case may be, the Registrar on or prior to such due date, it means the first date on which, the full amount of such monies having been so received and being available for payment to Holders, notice to that effect shall have been duly given to the Holders of the Notes of the relevant Series in accordance with Condition 15.
- 8.3 Any reference in these Terms and Conditions to “**principal**” and/or “**interest**” in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition 8. Unless the context otherwise requires, any reference in these Terms and Conditions to “**principal**” shall include any premium payable in respect of an Note, any Instalment Amount or Redemption Amount and any other amounts in the nature of principal payable pursuant to these Terms and Conditions and “**interest**” shall include all amounts payable pursuant to Condition 5 and any other amounts in the nature of interest payable pursuant to these Terms and Conditions.

9. Payments

9A *Payments – Bearer Notes*

9A.1 This Condition 9A is applicable in relation to Bearer Notes.

9A.2 Payment of amounts (other than interest) due in respect of Bearer Notes will be made against presentation and (save in the case of partial payment or payment of an Instalment Amount (other

than the final Instalment Amount)) surrender of the relevant Bearer Notes at the specified office of any of the Paying Agents.

Payment of Instalment Amounts (other than the final Instalment Amount) in respect of an Instalment Note which is a Definitive Note with Receipts will be made against presentation of the Note together with (where applicable) the relevant Receipt and surrender of such Receipt at the specified office of any of the Paying Agents.

The Receipts are not and shall not in any circumstances be deemed to be documents of title and if separated from the Note to which they relate will not represent any obligation of the Issuer.

Accordingly, the presentation of a Note without the relative Receipt or the presentation of a Receipt without the Note to which it appertains shall not entitle the Holder to any payment in respect of the relevant Instalment Amount.

9A.3 Payment of amounts in respect of interest on Bearer Notes will be made:

- (i) in the case of Notes without Coupons attached thereto at the time of their initial delivery, against presentation of the relevant Notes at the specified office of any of the Paying Agents outside (unless Condition 9A.4 applies) the United States or its possessions; and
- (ii) in the case of Notes delivered with Coupons attached thereto at the time of their initial delivery, against surrender of the relevant Coupons or, in the case of interest due otherwise than on a scheduled date for the payment of interest, against presentation of the relevant Notes, in either case at the specified office of any of the Paying Agents outside (unless Condition 9A.4 applies) the United States or its possessions.

9A.4 Payments of amounts due in respect of interest on the Notes and exchanges of Talons for Coupon sheets in accordance with Condition 9A.7 will not be made at the specified office of any Paying Agent in the United States (as defined in the United States Internal Revenue Code and Regulations thereunder) unless (a) payment in full of amounts due in respect of interest on such Notes when due or, as the case may be, the exchange of Talons at all the specified offices of the Paying Agents outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (b) such payment or exchange is permitted by applicable United States law. If paragraphs (a) and (b) of the previous sentence apply, the Issuer shall forthwith appoint a further Paying Agent with a specified office in New York City.

9A.5 If the due date for payment of any amount due in respect of any Note is not a Relevant Financial Centre Day and a Local Banking Day (each as defined in Condition 9C.3), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day, (or as otherwise specified in the Final Terms) and from such day and thereafter will be entitled to receive payment by cheque on any Local Banking Day, and will be entitled to payment by transfer to a designated account on any day which is a Local Banking Day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such delay or adjustment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.6 or, if appropriate, Condition 5.10.

9A.6 Each Note initially delivered with Coupons, Talons or Receipts attached thereto should be presented and, save in the case of partial payment of the Redemption Amount, surrendered for final redemption together with all unmatured Receipts, Coupons and Talons relating thereto, failing which:

- (i) if the Final Terms specifies that this paragraph (i) of Condition 9A.6 is applicable (and, in the absence of specification, this paragraph (i) shall apply to Notes which bear interest at a fixed rate or rates or in fixed amounts) and subject as hereinafter provided, the amount of any missing unmatured Coupons (or, in the case of a payment not being made in full, that portion of the amount of such missing Coupon which the Redemption Amount paid bears to the total Redemption Amount due) (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) will be deducted from the amount otherwise payable on such final redemption, the amount so deducted being payable against surrender of the relevant Coupon at the specified office of any of the Paying Agents at any time within ten years of the Relevant Date applicable to payment of such Redemption Amount;

- (ii) if the Final Terms specifies that this paragraph (ii) of Condition 9A.6 is applicable (and, in the absence of specification, this paragraph (ii) shall apply to Notes which bear interest at a floating rate or rates or in variable amounts) all unmatured Coupons (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) relating to such Notes (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them;
- (iii) in the case of Notes initially delivered with Talons attached thereto, all unmatured Talons (whether or not surrendered therewith) shall become void and no exchange for Coupons shall be made thereafter in respect of them; and
- (iv) in the case of Notes initially delivered with Receipts attached thereto, all Receipts relating to such Notes in respect of a payment of an Instalment Amount which (but for such redemption) would have fallen due on a date after such due date for redemption (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them.

The provisions of paragraph (i) of this Condition 9A.6 notwithstanding, if any Notes should be issued with a maturity date and an Interest Rate or Rates such that, on the presentation for payment of any such Note without any unmatured Coupons attached thereto or surrendered therewith, the amount required by paragraph (i) to be deducted would be greater than the Redemption Amount otherwise due for payment, then, upon the due date for redemption of any such Note, such unmatured Coupons (whether or not attached) shall become void (and no payment shall be made in respect thereof) as shall be required so that, upon application of the provisions of paragraph (i) in respect of such Coupons as have not so become void, the amount required by paragraph (i) to be deducted would not be greater than the Redemption Amount otherwise due for payment. Where the application of the foregoing sentence requires some but not all of the unmatured Coupons relating to a Note to become void, the relevant Paying Agent shall determine which unmatured Coupons are to become void, and shall select for such purpose Coupons maturing on later dates in preference to Coupons maturing on earlier dates.

9A.7 In relation to Notes initially delivered with Talons attached thereto, on or after the due date for the payment of interest on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent outside (unless Condition 9A.4 applies) the United States or its possessions in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 11 below. Each Talon shall, for the purpose of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

9B Payments – Registered Notes

9B.1 This Condition 9B is applicable in relation to Registered Notes.

9B.2 Payment of the Redemption Amount (together with accrued interest) due in respect of Registered Notes will be made against presentation and, save in the case of partial payment of the Redemption Amount, surrender of the relevant Registered Notes at the specified office of the Registrar or any Transfer Agent. If the due date for payment of the Redemption Amount of any Registered Note is not a Relevant Financial Centre Day (as defined in Condition 9C.3), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day, and from such day and thereafter will be entitled to receive payment by cheque on any Local Banking Day, and, will be entitled to payment by transfer to a designated account on any day which is a Local Banking Day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.6 or, as appropriate, Condition 5.10.

9B.3 Payment of amounts (whether principal, interest or otherwise) due (other than the Redemption Amount) in respect of Registered Notes will be paid to the Holder thereof (or, in the case of joint Holders, the first-named) as appearing in the register kept by the Registrar as at opening of business

(local time in the place of the specified office of the Registrar) on the fifteenth Relevant Banking Day (as defined in Condition 2.6) before the due date for such payment (the “**Record Date**”).

9B.4 Notwithstanding the provisions of Condition 9C.2, payment of amounts (whether principal, interest or otherwise) due (other than the Redemption Amount) in respect of Registered Notes will be made in the currency in which such amount is due by cheque, unless prior to the relevant Record Date the Holder thereof (or, in the case of joint Holders, the first-named) has applied to the Registrar and the Registrar has acknowledged such application for payment to be made to a designated account denominated in the relevant currency in which case payment shall be made on the relevant due date for payment by transfer to such account. In the case of payment by transfer to an account, if the due date for any such payment is not a Relevant Financial Centre Day, then the Holder thereof will not be entitled to payment thereof until the first day thereafter which is a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.6 or, as appropriate, Condition 5.10.

9C Payments – General Provisions

9C.1 Save as otherwise specified in these Terms and Conditions, this Condition 9C is applicable in relation to both Bearer and Registered Notes.

9C.2 Payments of amounts due (whether principal, interest or otherwise) in respect of Notes will be made in the currency in which such amount is due (a) by cheque, or (b) at the option of the payee, by transfer to an account denominated in the relevant currency or to an account to which payments can otherwise be legally made specified by the payee. All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to a Holder in respect of such payment.

9C.3 For the purposes of these Terms and Conditions:

- (i) “**Relevant Financial Centre Day**” means, in the case of any currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the Relevant Financial Centre and in any other Relevant Financial Centre specified in the Final Terms or in the case of payment in euro, a day which is a Target Business Day (as defined in Condition 5.9); and
- (ii) “**Local Banking Day**” means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place of presentation of the relevant Note or, as the case may be, Coupon.

10. Prescription

10.1 Claims against the Issuer for payment of principal and interest in respect of Notes will be prescribed and become void unless made, in the case of principal, within ten years or, in the case of interest, five years after the Relevant Date (as defined in Condition 8.2) for payment thereof.

10.2 In relation to Definitive Notes initially delivered with Talons attached thereto, there shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to Condition 9A.6 or the due date for the payment of which would fall after the due date for the redemption of the relevant Note or which would be void pursuant to this Condition 10 or any Talon the maturity date of which would fall after the due date for redemption of the relevant Note.

11. The Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent

11.1 The initial Paying Agents, Registrar and Transfer Agents and their respective initial specified offices are specified below. The Calculation Agent in respect of any Notes shall be specified in the Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent (including the Fiscal Agent), the Registrar, any Transfer Agent or the Calculation Agent and to appoint additional or other Paying Agents, another Registrar, additional or other Transfer Agents or another Calculation Agent, provided that it will at all times maintain (i) an

Fiscal Agent, (ii) in the case of Registered Notes, a Registrar, (iii) a Paying Agent (or in the case of registered Notes, a Transfer Agent) with a specified office in a continental European city, (iv) so long as the Notes are listed on the Luxembourg Stock Exchange and/or any other stock exchange, a Paying Agent and a Registrar or Transfer Agent each with a specified office in Luxembourg and/or in such other place as may be required by the rules of such other stock exchange, (v) in the circumstances described in Condition 9A.4, a Paying Agent with a specified office in New York City, (vi) a Calculation Agent where required by the Terms and Conditions applicable to any Notes (in the case of (i), (ii), (iii) and (vi) with a specified office located in such place (if any) as may be required by the Terms and Conditions) and (vii) the Issuer will ensure that it maintains a Paying Agent in an European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing, or complying with, or introduced to conform to, such Directive. The Paying Agents, the Registrar, the Transfer Agent and the Calculation Agent reserve the right at any time to change their respective specified offices to some other specified office in the same city. Notice of all changes in the identities or specified offices of any Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent will be given promptly by the Issuer to the Holders in accordance with Condition 14.

- 11.2 The Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and, save as provided in the Fiscal Agency Agreement or any other agreement entered into with respect to its appointment, do not assume any obligations towards or relationship of agency or trust for any Holder of any Note, Receipt or Coupon and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Fiscal Agency Agreement or other agreement entered into with respect to its appointment or incidental thereto.

12. Replacement of Notes

If any Note, Receipt or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent or such Paying Agent or Paying Agents as may be specified for such purpose in the Final Terms (in the case of Bearer Notes and Coupons) or of the Registrar or any Transfer Agent (in the case of Registered Notes) (the “**Replacement Agent**”), subject to all applicable laws and the requirements of any stock exchange on which the Notes are listed, upon payment by the claimant of all expenses incurred in connection with such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Issuer and the Replacement Agent may require. Mutilated or defaced Notes, Receipts and Coupons must be surrendered before replacements will be delivered therefore.

13. Meetings of Holders; Appointment of Representative Committee and Modification

- 13.1 The Fiscal Agency Agreement contains provisions (which shall have effect as if incorporated herein) for convening meetings of the Holders of Notes of any Series to consider any matter affecting their interest, including (without limitation) the modification by Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of these Terms and Conditions and the Deed of Covenant insofar as the same may apply to such Notes. An Extraordinary Resolution passed at any meeting of the Holders of Notes of any Series will be binding on all Holders of the Notes of such Series, whether or not they are present at the meeting, and on all Holders of Coupons relating to Notes of such Series.
- 13.2 The Holders may, by a resolution passed at a meeting of Holders duly convened and held in accordance with the Fiscal Agency Agreement by a majority of at least 50 per cent. in aggregate principle amount of any Series of Notes then outstanding, or by notice in writing to the Issuer (with a copy to the Fiscal Agent) signed by or on behalf of the Holders of at least 50 per cent. in aggregate principal amount of any Series of Notes then outstanding, appoint any person or persons as a committee to represent the interests of the Holders if any of the following events has occurred and has not been remedied or otherwise rectified:
- (i) an Event of Default;
 - (ii) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 7 become an Event of Default; or
 - (iii) any official public announcement by the Issuer to the effect that the Issuer is seeking, or intends to seek a restructuring of any Series of Notes (whether by amendment, exchange offer or otherwise),

provided, however, that no such appointment shall be effective if the Holders of more than 25 per cent. of the principal amount of the outstanding Notes of such Series have either (a) objected to such appointment by notification in writing to the Issuer (with a copy to the Fiscal Agent) during a specified period following notice of the appointment being given (if such notice of appointment is made by notice in writing to the Issuer) where such specified period shall be either 30 days or such other period as the committee may, acting in good faith, determine be appropriate in the circumstances, or (b) voted against such resolution at a meeting of Holders duly convened and held in accordance with the provisions of the Fiscal Agency Agreement.

Such committee shall, if appointed by notice in writing to the Issuer, give notice of its appointment to all Holders of the relevant Series of Notes in accordance with Condition 14 as soon as practical after notice is given to the Issuer. Such committee, in its discretion, may, among other things (i) engage legal advisers and financial advisers to assist it in representing the interests of the Holders, (ii) adopt such rules as it considers appropriate regarding its proceedings and (iii) enter into discussions with the Issuer and/or other creditors of the Issuer. The Issuer shall pay any reasonably incurred fees and expenses of any such committee (including, without limitation, the fees and expenses of the committee's legal advisers and financial advisers, if any) within 30 days of the delivery to the Issuer of a reasonably detailed invoice and supporting documentation.

- 13.3 The Issuer may, with the consent of the Fiscal Agent, but without the consent of the Holders of the Notes of any Series or Coupons, amend these Terms and Conditions and the Deed of Covenant insofar as they may apply to such Notes to correct a manifest error. Subject as aforesaid, no other modification may be made to these Terms and Conditions or the Deed of Covenant except with the sanction of an Extraordinary Resolution.

14. Notices

To Holders of Bearer Notes

- 14.1 Notices to Holders of Bearer Notes will, save where another means of effective communication has been specified herein or in the Final Terms, be deemed to be validly given if (i) published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*), and (ii) in the case of any Notes which are listed on the Luxembourg Stock Exchange (so long as such Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require), in a leading newspaper having general circulation in Luxembourg (which is expected to be the *d'Wort* or the *Tageblatt*) and/or the Luxembourg Stock Exchange's website, *www.bourse.lu* or (in the case of (i) or (ii)), if such publication is not practicable, if published in a leading English language daily newspaper having general circulation in Europe. Until such time as any definitive Notes are issued, there may, so long as any Temporary or Permanent Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system for communication by them to the persons shown in their respective records as having interests therein. The Issuer shall also ensure that notices are duly published in compliance with the requirements of each stock exchange on which the Notes are listed. Any notice so given will be deemed to have been validly given on the date of first such publication (or, if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to Holders of Bearer Notes in accordance with this Condition.

To Holders of Registered Notes

- 14.2 Notices to Holders of Registered Notes will be deemed to be validly given if sent by first class mail (or equivalent) or (if posted to an overseas address) by air mail to them (or, in the case of joint Holders, to the first-named in the register kept by the Registrar) at their respective addresses as recorded in the register kept by the Registrar, and will be deemed to have been validly given on the fourth weekday after the date of such mailing or, if posted from another country, on the fifth such day. With respect to Registered Notes listed on the Luxembourg Stock Exchange, any notices to holders must also be published in a newspaper having general circulation in Luxembourg, which is expected to be the *d'Wort*, and/or the Luxembourg Stock Exchange's website, *www.bourse.lu* and, in addition to the foregoing, will be deemed validly given only after the date of such publication.

15. Further Issues

The Issuer may from time to time, without the consent of the Holders of any Notes or Coupons, create and issue further Notes, bonds or debentures having the same terms and conditions as such Notes in all respects (or in all respects except for the first payment of interest, if any, on them and/ or the denomination thereof) so as to form a single series with the Notes of any particular Series.

16. Currency Indemnity

The currency in which the Notes are denominated or, if different, payable, as specified in the Final Terms (the “**Contractual Currency**”), is the sole currency of account and payment for all sums payable by the Issuer in respect of the Notes, including damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Holder of a Note or Coupon in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the Contractual Currency which such Holder is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that amount is less than the amount in the Contractual Currency expressed to be due to any Holder of a Note or Coupon in respect of such Note or Coupon the Issuer shall indemnify such Holder against any loss sustained by such Holder as a result. In any event, the Issuer shall indemnify each such Holder against any cost of making such purchase which is reasonably incurred. These indemnities constitute a separate and independent obligation from the Issuer’s other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder of a Note or Coupon and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due in respect of the Notes or any judgment or order. Any such loss aforesaid shall be deemed to constitute a loss suffered by the relevant Holder of a Note or Coupon and no proof or evidence of any actual loss will be required by the Issuer.

17. Waiver and Remedies

No failure to exercise, and no delay in exercising, on the part of the Holder of any Note, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right. Rights hereunder shall be in addition to all other rights provided by law. No notice or demand given in any case shall constitute a waiver of rights to take other action in the same, similar or other instances without such notice or demand.

18. Redenomination, Renominalisation and Reconditioning

18.1 This Condition 18 is applicable to the Notes only if it is specified in the relevant Final Terms as being applicable.

18.2 If the country of the Specified Currency becomes or announces its intention to become, a Participating Member State, the Issuer may, without the consent of Holders, on giving at least 30 days’ prior notice to Holders and the Paying Agents, designate a date (the “**Redenomination Date**”), being an Interest Payment Date under the Notes falling on or after the date on which such country becomes a Participating Member State.

18.3 Notwithstanding the other provisions of these Terms and Conditions, with effect from the Redenomination Date:

- (i) the Notes shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into euro at the rate for conversion of such currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); provided, however, that, if the Issuer determines, with the agreement of the Fiscal Agent, then market practice in respect of the redenomination into euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Holders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;

- (ii) if Notes have been issued in definitive form:
 - (a) all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date (the “**Euro Exchange Date**”) on which the Issuer gives notice (the “**Euro Exchange Notice**”) to Holders that replacement Notes and Coupons denominated in euro are available for exchange (provided that such Notes and Coupons are available) and no payments will be made in respect thereof;
 - (b) the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 18) shall remain in full force and effect; and
 - (c) new Notes and Coupons denominated in euro will be issued in exchange for Notes and Coupons denominated in the Specified Currency in such manner as the Fiscal Agent may specify and as shall be notified to Holders in the Euro Exchange Notice; and
- (iii) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Specified Currency ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by cheque drawn on, or by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Member State of the European Communities.

18.4 Following redenomination of the Notes pursuant to this Condition 18, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder.

18.5 If the relevant Notes are specified as Floating Rate in the relevant Final Terms and Relevant Screen Page is specified in the relevant Final Terms as the manner in which the Interest Rate(s) is/are to be determined, with effect from the Redenomination Date the Interest Determination Date shall be deemed to be the second Target Business Day before the first day of the relevant Interest Accrual Period.

19. Governing Law

19.1 The Notes, the Fiscal Agency Agreement and the Deed of Covenant are governed by, and shall be construed in accordance with, English law.

20. Jurisdiction

20.1 The Issuer irrevocably agrees for the benefit of the Holders of the Notes that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Notes or Coupons (respectively, “**Proceedings**” and “**Disputes**”) and, for such purposes, irrevocably submits to the non-exclusive jurisdiction of such courts.

20.2 The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes and agrees not to claim that any such court is not a convenient or appropriate forum.

20.3 The Issuer agrees that the process by which any proceedings in England are begun may be served on it by being delivered to the Chief of the Consul Department at the Embassy of the Czech Republic currently located at 26 Kensington Palace Gardens, London W8 4QY. If the appointment of the person mentioned in this Condition 20.3 ceases to be effective, the Issuer shall forthwith appoint a further person in England to accept service of process on its behalf in England and notify the name and address of such person to the Fiscal Agent and, failing such appointment within fifteen days, any Holder of a Note shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent. Nothing contained herein shall affect the right of any Holder of a Note to serve process in any other manner permitted by law.

20.4 The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Holders of the Notes or any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions

preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by applicable law.

- 20.5 The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings subject, in the case of any property, to the matters specifically provided for in Clause 20.6 below.
- 20.6 To the extent that the Issuer or any of its revenues, assets or properties shall be entitled to any immunity from suit, from the jurisdiction of any such court, from set-off, from attachment prior to judgment, from attachment in aid of execution of judgment, from execution of a judgment or from any other legal or judicial process or remedy, and to the extent that in any such jurisdiction there shall be attributed such an immunity, the Issuer irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction. Such waiver of immunities constitutes only a limited and specific waiver by the Issuer for the purposes of this Agreement and under no circumstances shall it be construed as a general waiver by the Issuer or a waiver with respect to proceedings unrelated to this Agreement. The Issuer does not waive any immunity in respect of property which is ambassadorial, consular or defence real property or buildings or the contents thereof, in each case situated outside the Czech Republic.

PROVISIONS RELATING TO NOTES IN GLOBAL FORM

(A) *Relationship of Accountholders with Clearing Systems*

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system as the holder of a Note represented by a Global Note (which expression includes a Temporary Global Note and a Permanent Global Note) must look solely to Euroclear, Clearstream, Luxembourg or such other clearing system (as the case may be) for such person's share of each payment made by the Issuer to the bearer of such Global Note (or the registered holder of the Global Registered Note, as the case may be), and in relation to all other rights arising under the Global Notes, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Registered Note and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note (or the registered holder of the Global Registered Note, as the case may be), in respect of each amount so paid. References in these provisions relating to the Notes in global form to “**holder**” or “**accountholder**” are to those persons shown in the records of the relevant clearing system as a holder of a Note.

(B) *Exchange of Temporary Global Note*

(1) *Exchange for Permanent Global Note:* Whenever any interest in a Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure:

- (i) in the case of first exchange, the prompt delivery (free of charge to the bearer) of such Permanent Global Note, duly authenticated and, in the case of a NGN, effectuated, to the bearer of the Temporary Global Note; or
- (ii) in the case of any subsequent exchange, an increase in the principal amount of such Permanent Global Note in accordance with its terms,

in each case in an aggregate principal amount equal to the aggregate of the principal amounts specified in the certificates issued by Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system and received by the Fiscal Agent against, in the case of a CGN, presentation and (in the case of final exchange) surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent or, in the case of partial exchange of a NGN, confirmation from the common service provider that Euroclear and Clearstream, Luxembourg have made appropriate entries in their records to reflect the relevant exchange and, in the case of final exchange of a NGN, surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent or destruction of the Temporary Global Note by either Clearstream, Luxembourg or Euroclear (the “**ICSDs**”) as the common safekeeper in accordance with the Agency Agreement, in any such case within seven days of the bearer requesting such exchange.

(2) *Exchange for Definitive Notes:* Whenever a Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

(3) *Delivery:* If:

- (i) a Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 pm (London time) on the seventh day after the bearer of a Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or
- (ii) Definitive Notes have not been delivered by 5.00 pm (London time) on the thirtieth day after the bearer of a Temporary Global Note has requested exchange of the Temporary Global Note for Definitive Notes; or
- (iii) a Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of a Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling

due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note or increase the principal amount thereof or deliver Definitive Notes, as the case may be) will become void at 5.00 pm (London time) on such seventh day (in the case of (a) above) or at 5.00 pm (London time) on such thirtieth day (in the case of (b) above) or at 5.00 pm (London time) on such due date (in the case of (c) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under a deed of covenant dated 23 May 2008 (the “**Deed of Covenant**”) executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system.

(C) *Exchange of Permanent Global Note*

(1) *Exchange for Definitive Notes:* Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

(2) *Delivery:* If:

(i) Definitive Notes have not been delivered by 5.00 pm (London time) on the thirtieth day after the bearer of a Permanent Global Note has duly requested exchange of the Permanent Global Note for Definitive Notes; or

(iii) a Permanent Global Note (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Permanent Global Note in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 pm (London time) on such thirtieth day (in the case of (a) above) or at 5.00 pm (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant. Under the Deed of Covenant, persons shown in the records of Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system as being entitled to an interest in a Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system.

(D) *Exchange of Global Registered Notes*

(1) *Global Registered Note:* Registered Notes held in Euroclear and/or Clearstream, Luxembourg (or other clearing system) will be represented by a Global Registered Note which will be registered in the name of a nominee for, and deposited with, a common depository for Euroclear and Clearstream, Luxembourg (or such other relevant clearing system).

(2) *Exchange for Registered Notes:* The Global Registered Note will become exchangeable in whole, but not in part, for individual Registered Notes if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or

announces an intention permanently to cease business, (b) any of the circumstances described in Condition 7 occurs, or (c) at any time at the request of the registered Holder if so specified in the Final Terms.

- (3) *Delivery*: Whenever the Global Registered Note is to be exchanged for Registered Notes, such Registered Notes will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Note within five business days of the delivery, by or on behalf of the registered Holder of the Global Registered Note, Euroclear and/or Clearstream, Luxembourg, to the Registrar or the Transfer Agent (as the case may be) of such information as is required to complete and deliver such Registered Notes (including, without limitation, the names and addresses of the persons in whose names the Registered Notes are to be registered and the principal amount of each such person's holding) against the surrender of the Global Registered Note at the Specified Office of the Registrar or the Transfer Agent (as the case may be). Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar or the Transfer Agent (as the case may be) may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If (a) Registered Notes have not been issued and delivered by 5.00 pm (London time) on the thirtieth day after the date on which the same are due to be issued and delivered in accordance with the terms of the Global Registered Note or (b) any of the Notes evidenced by the Global Registered Note has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the Holder of the Global Registered Note on the due date for payment in accordance with the terms of the Global Registered Note, then the Global Registered Note (including the obligation to deliver Registered Notes) will become void at 5.00 pm (London time) on such thirtieth day (in the case of (a) above) or at 5.00 pm (London time) on such due date (in the case of (b) above) and the Holder will have no further rights thereunder (but without prejudice to the rights which the Holder or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg (or other relevant clearing system) as being entitled to interests in the Notes will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Registered Note became void, they had been the registered Holders of Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear, Clearstream, Luxembourg or other relevant clearing system (as the case may be).

(E) *Amendment to Conditions*

The Temporary Global Notes, Permanent Global Notes and Global Registered Notes contain provisions that apply to the Notes that they represent, some of which modify the effect of the Terms and Conditions of the Notes set out in this Offering Circular. The following is a summary of certain of those provisions:

- (1) *Meetings*: The holder of a Permanent Global Note or of the Notes represented by a Global Registered Note shall (unless such Permanent Global Note or Global Registered Note represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of holders and, at any such meeting, the holder of a Permanent Global Note shall be treated as having one vote in respect of each minimum Denomination of Notes for which such Global Note may be exchanged. (All holders of Registered Notes are entitled to one vote in respect of each Note comprising such holder's holding, whether or not represented by a Global Registered Note).
- (2) *Cancellation*: Cancellation of any Note represented by a Permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Permanent Global Note.
- (3) *Purchase*: Notes represented by a Permanent Global Note may only be purchased by the Issuer if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

- (4) *Issuer's Options:* Any option of the Issuer provided for in the Conditions of the Notes while such Notes are represented by a Permanent Global Note or a Global Registered Note shall be exercised by the Issuer giving notice to the holders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the partial redemption will be effected in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion).
- (5) *Holders' Options:* Any option of the holders provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note or a Global Registered Note may be exercised by the Holder of such Permanent Global Note or Global Registered Note, giving notice to the Fiscal Agent within the time limits relating to the deposit of Notes with a Paying Agent or the Registrar, in the case of a Global Registered Note substantially in the form of the notice available from any Paying Agent (or the Registrar, in the case of a Global Registered Note), except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the principal amount of Notes in respect of which the option is exercised and at the same time presenting for notation the Permanent Global Note or the Global Registered Note to the Fiscal Agent, or to a Paying Agent acting on behalf of the Fiscal Agent, (or the Registrar, in the case of a Global Registered Note).
- (6) *Notices:* Notwithstanding Condition 14, while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or Registered Global Note and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), in the case of a CGN, deposited with a depository or a common depository for Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system or in the case of a NGN, with a common safekeeper, notices to the Holders of Notes of that Series may be given by delivery of the relevant notice to Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Holders of the Notes in accordance with Condition 14. on the date of delivery to Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system provided, however, that so long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *d'Wort* or the *Tagesblatt*).

(F) *Partly Paid Notes*

While any Partly Paid Instalments due from the holder of Partly Paid Notes are overdue, no interest in a Permanent Global Note or Registered Global Note representing such Notes may be exchanged for an interest in a Permanent Global Note or for Definitive Notes or a Registered Note (as the case may be). If any holder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to such holder in respect of them.

FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

Final Terms dated [●]

The Czech Republic
acting through the Ministry of Finance

Issue of [*Aggregate Principal Amount of Tranche*] [*Title of Notes*]
€10,000,000,000 Euro Medium Term Note Programme

This document constitutes the Final Terms relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Offering Circular dated 23 May 2008. These Final Terms contain the final terms of the Notes and must be read in conjunction with such Offering Circular.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the “**Conditions**”) set forth in the Offering Circular dated 23 May 2008. These Final Terms contain the final terms of the Notes and must be read in conjunction with the Offering Circular dated 23 May 2008 [and the supplemental Offering Circular dated [●]], save in respect of the Conditions which are extracted from the Offering Circular dated [●] and are attached hereto.]

Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.

PART A – CONTRACTUAL TERMS

1. Issuer: The Czech Republic, *acting through the Ministry of Finance*
2. [(i)] Series Number: [●]
[(ii)] Tranche Number: [●]
(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3. Specified Currency or Currencies: [●]
4. Aggregate Principal Amount: [●]
[(i)] Series: [●]
[(ii)] Tranche: [●]
5. Issue Price: [●] per cent of the Aggregate Principal Amount [plus accrued interest from [*insert date*] (if applicable)]
6. (i) Specified Denominations: [●]
[Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 FSMA and which have a maturity of

less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).]

- (ii) Calculation Amount:
- (If only one Specified Denomination, insert Specified Denomination. If more than one Specified Denomination, insert the highest factor. N.B. There must be a common factor in the case of two or more Specified Denominations)*
7. [(i)] Issue Date:
[(ii)] Interest Commencement Date: [Specify/Issue Date/Not Applicable]
8. Maturity Date: [specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]
- [If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to “professional investors” or (ii) another applicable exemption from section 19 of the FSMA must be available.]*
9. Interest Basis: per cent. Fixed Rate
 [specify reference rate] +/- per cent. Floating Rate
 Index-Linked
 Zero Coupon
 Other (specify)
(further particulars specified below)
10. Redemption/Payment Basis: Redemption at par
 Index Linked Redemption
 Dual Currency
 Partly Paid
 Instalment
 Other (specify)
11. Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]*
12. Put/Call Options: Investor Put
 Issuer Call
 [(further particulars specified below)]
13. [i] Status of the Notes: Senior
[ii] Date approval for issuance of Notes obtained:
- (N.B. Only relevant where authorisation is required for the particular tranche of Notes.)*
14. Method of distribution: Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. **Fixed Rate Notes Provisions:** [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: per cent., per annum [payable [annually/semi-annually/quarterly/monthly/other (*specify*)] in arrears]
 - (ii) Interest Payment Date(s): in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted]
 - (iii) Fixed Coupon Amount[(s)]: per Calculation Amount
 - (iv) Broken Amount(s): per Calculation Amount payable on the Interest Payment Date falling [in/on]
 - (v) Day Count Fraction: [30/360/Actual/Actual (ICMA/ISDA)/other]
 - (vi) [Determination Dates: in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*)]
 - (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/*give details*]
16. **Floating Rate Notes Provisions:** [Applicable/Not applicable] *[If not applicable, delete the remaining sub-paragraphs of this paragraph.]*
- (i) Interest Period(s):
 - (ii) Specified Interest Payment Dates:
 - (iii) First Interest Payment Date:
 - (iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
 - (v) Business Centre(s):
 - (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ ISDA Determination/other (*give details*)]
 - (vii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):
 - (viii) Screen Rate Determination:
 - Reference Rate:
 - Interest Determination Date(s):
 - Relevant Screen Page:
 - (ix) ISDA Determination:
 - Floating Rate Option:
 - Designated Maturity:
 - Reset Date:
 - (x) Margin(s): [+/-] per cent. per annum

- (xi) Minimum Rate of Interest: per cent. per annum
- (xii) Maximum Rate of Interest: per cent. per annum
- (xiii) Day Count Fraction:
- (xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:
17. **Zero Coupon Note Provisions:** [Applicable/Not Applicable] *[If not applicable, delete the remaining sub-paragraphs of this paragraph]*
- (i) [Amortisation/Accrual] Yield:
- (ii) Reference Price:
- (iii) Any other formula/basis of determining amount payable:
18. **Index-Linked Interest Note Provisions:** [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Index/Formula/other variable: *[give or annex details]*
- (ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Fiscal Agent]): *[[] shall be the Calculation Agent (no need to specify if the Fiscal Agent is to perform this function)]*
- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:
- (iv) Determination Date(s):
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:
- (vi) Interest or calculation period(s):
- (vii) Specified Interest Payment Dates:
- (viii) Business Day Convention: *[Floating Rate Convention / Following Business Day Convention / Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]*
- (ix) Relevant Financial Centre: *[The financial centre most closely connected to the Index – specify if not London]*
- (x) Minimum Rate/Amount of Interest: per cent. per annum
- (xi) Maximum Rate/Amount of Interest: per cent. per annum
- (xii) Day Count Fraction:
19. **Dual Currency Note Provisions:** [Applicable/Not Applicable] *[If not applicable, delete the remaining sub-paragraphs of this paragraph]*
- (i) Rate of Exchange/method of calculating Rate of Exchange: *[give details]*

- (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the [Fiscal Agent]): shall be the Calculation Agent (no need to specify if the Fiscal Agent is to perform this function)
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:
- (iv) Person at whose option Specified Currency(ies) is/are payable:

PROVISIONS RELATING TO REDEMPTION

20. Call Option: [Applicable/Not Applicable] *[If not applicable, delete the remaining subparagraphs of this paragraph]*

- (i) Call Option Date(s)/Call Option Period:
- (ii) Early Redemption Amount (Call) per Calculation Amount Amount(s) of each Note and method, if any, of calculation of such amount(s):
- (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: per Calculation Amount
 - (b) Maximum Redemption Amount: per Calculation Amount
- (iv) Notice period:

21. Put Option: [Applicable/Not Applicable] *[If not applicable, delete the remaining subparagraphs of this paragraph]*

- (i) Put Option Date(s)/Put Option Period:
- (ii) Early Redemption Amount(s) (Put) of each Note and method, if any, of calculation of such amount(s): per Calculation Amount
- (iii) Notice period:

22. Final Redemption Amount of each Note: per Calculation Amount

In cases where the Final Redemption Amount is Index-Linked or other variable-linked:

- (i) Index/Formula/variable: *[give or annex details]*
- (ii) Party responsible for calculating the Final Redemption Amount (if not the [Agent]):
- (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:
- (iv) Determination Date(s):
- (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:
- (vi) Payment Date:
- (vii) Minimum Final Redemption Amount: per Calculation Amount

- (viii) Maximum Final Redemption Amount: per Calculation Amount
23. Early Redemption Amount
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note.]
[Temporary Global Note exchangeable for Definitive Notes on days' notice.]
[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note].
25. New Global Note: [Yes] [No]
26. Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/(specify)] [*Note that this item relates to the date and place of payment, and not interest period end dates*]
27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes (*give details*)/No]
28. Details relating to Partly Paid Notes (amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment): [Not Applicable/*give details*]
29. Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: [Not Applicable/*give details*]
30. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition 18/annexed to these Final Terms] apply]
31. Consolidation provisions: [Not Applicable/The provisions in Condition 15 apply]
32. Other final terms: [Not Applicable/*give details*]

DISTRIBUTION

33. (i) If syndicated, names of Managers: [Not Applicable/*give names*]
(ii) Stabilising Manager(s) (if any): [Not Applicable/*give name*]
34. If non-syndicated, name of Dealer: [Not Applicable/*give name*]
35. U.S. Selling Restrictions: [Reg. S Compliance Category; TEFRA C/TEFRA D/ TEFRA not applicable]
36. Additional selling restrictions: [Not Applicable/*give details*]

PURPOSE OF FINAL TERMS

[These Final Terms comprise the final terms required to list the issue of Notes described herein pursuant to the €10,000,000,000 Euro Medium Term Note Programme of The Czech Republic acting through the Ministry of Finance.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms.

Signed on behalf of The Czech Republic acting through the Ministry of Finance:

By:.....
Duly authorised

PART B – OTHER INFORMATION

1. LISTING

- (i) Listing: Luxembourg/*None*
- (ii) Admission to trading: Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the regulated market of the Luxembourg Stock Exchange with effect from [●]. / [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the Luxembourg Stock Exchange with effect from [●]].
- (iii) [Estimate of total expenses related to admission to trading:] [●]

2. RATINGS

- Ratings: The Notes to be issued have been rated:
[S & P: [●]]
[Moody's: [●]]
[[Fitch: [●]]
[[Other]: [●]]

3. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

“Save as discussed in [“Subscription and Sale”], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

4. [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i) Reasons for the offer: [●]

[(ii)] Estimated net proceeds: [●]

(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)

5. [Fixed Rate Notes only – YIELD

Indication of yield: [●]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6. [Index-Linked or other variable-linked Notes only – PERFORMANCE OF INDEX/FORMULA/ OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]

7. **[Dual Currency Notes only – PERFORMANCE OF RATE[S] OF EXCHANGE**

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]

8. **OPERATIONAL INFORMATION**

ISIN Code:

Common Code:

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

Delivery: Delivery [against/free of] payment

Names and addresses of initial Paying Agent(s):

Names and addresses of additional Paying Agent(s) (if any):

Intended to be held in a manner which would allow Eurosystem eligibility: [Yes][No] [Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognized as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.][include this text if “yes” selected in which case the Notes must be issued in NGN form]

USE OF PROCEEDS

The net proceeds of the issue of each Tranche of Notes will be used for covering deficits of the State Budget, the repayment of principal of state debt and other purposes authorised by law.

THE CZECH REPUBLIC

Geography and Population

The Czech Republic is situated in the heart of Europe, bordering Germany to the west, Poland to the north, Slovakia to the east and Austria to the south. Its borders are mostly formed by forested mountain ranges and hills, except in the south-east where it shares lowlands with Austria and Slovakia. A developed road and rail network connects its two main regions, Bohemia and Moravia.

The Czech Republic covers an area of approximately 30,000 square miles and its population is estimated to be approximately 10.3 million inhabitants. Approximately one quarter of the population of the Czech Republic lives in the country's five largest cities, the largest of which is Prague, the Czech capital, with an estimated population of approximately 1.2 million.

History

The origins of the first independent Czech state are found in the Middle Ages, when the region enjoyed economic and cultural prosperity, particularly under Emperor Charles IV. The country came under Habsburg rule for a period of 400 years, beginning in the early 16th century, and during the 19th century became a part of the Austro-Hungarian Empire. The independent state of Czechoslovakia was established as a democratic republic on 28 October 1918, following the collapse of the Austro-Hungarian Empire at the end of World War I.

Between 1918 and 1938, Czechoslovakia was politically stable and economically prosperous. The country had inherited most of the Austro-Hungarian Empire's industrial capacity, and its labour force was considered highly skilled. Subsequent to Germany's invasions of Czechoslovakia in 1938 and 1939, the Czech regions of Bohemia and Moravia together became a German protectorate, while Slovakia became a separate republic under German rule. While many Czech and Slovak industrial areas were destroyed during World War II, Czechoslovakia did not suffer the devastation that other countries sustained.

In 1945, Czechoslovakia was re-established as an independent state. Parliamentary elections were held in May 1946, and resulted in the communist party coming to power. In 1948, the communist party took exclusive control of the government, establishing a one-party state and drawing Czechoslovakia into the political and economic sphere of the Soviet Union. A new Constitution cemented communist party control. Two rounds of nationalisation, in 1945 and in 1948, eliminated private ownership of property in the country, and the communist regime remained in power for more than 40 years.

Demands for greater political freedom culminated in the appointment of a reform-oriented government during the spring of 1968. However, in August 1968, an invasion by Soviet and Warsaw Pact soldiers, widely known as the Prague Spring, forcibly suppressed these reform efforts.

Starting in November 1989, a short, non-violent struggle, which came to be known as the Velvet Revolution, initiated fundamental changes in the country's social, economic and political systems. The communist party was no longer able to depend upon Soviet political and economic support and lost political power, ceding power first to an interim coalition government, then to free elections, and then, in June 1990, to the establishment of a new democratic Federal Assembly.

In April 1990, Czechoslovakia was renamed the Czech and Slovak Federal Republic (the "CSFR"), in formal recognition of the functional autonomy of the two republics. Initially, collaboration between the republics proved to be successful, ensuring broad support for the intensive reform programmes launched in 1991. However, by mid-1992, coalition building between the republics had become increasingly difficult and the complex parliamentary rules of the CSFR threatened to paralyse the political process. On 25 November 1992, the Federal Assembly enacted a law dissolving the CSFR. On the basis of this law, the Czech and Slovak Republics became formally independent states on 1 January 1993. Legally, each republic became a successor to the CSFR, and federal property was divided on a two-to-one ratio (Czech Republic to Slovak Republic), reflecting the relative size of populations and economies. Separate monetary systems and currencies were introduced by each republic in February 1993.

The Czech Republic became a member of the European Union (the "European Union" or the "EU") on 1 May 2004, however has not yet adopted euro as its lawful currency. The Czech Republic became a member of North Atlantic Treaty Organisation ("NATO") on 12 March 1999.

The Czech Political System

In 1992, the Czech Republic adopted a new constitution, which provides for the separation of legislative, executive and judicial powers.

Parliament

The Parliament of the Czech Republic consists of two chambers: a Chamber of Deputies with 200 members, and a Senate with 81 members. The members of the Chamber of Deputies are elected for a four-year term and the members of the Senate are generally elected for a six-year term, with one-third of the total number of the Senate's seats elected every two years. Amendments to the Constitution and certain other legislative acts require the consent of both the Chamber of Deputies and the Senate. The Senate has the power to review the legislation passed by the Chamber of Deputies (except for acts approving the State budget and final State accounts, which are only approved by the Chamber of Deputies). The Chamber of Deputies can override a bill vetoed by the Senate by the votes of 101 Deputies. The Senate, unlike the Chamber of Deputies, cannot be dissolved. The Senate was initially formed and Senators elected in November 1996.

President

The President of the Czech Republic is the head of state, elected for a five-year term by a joint session of both chambers of the Parliament. The President may serve a maximum of two successive terms in office. Presidential authority is limited, but the President can dissolve the Chamber of Deputies under certain limited circumstances. The President may also veto a law, other than constitutional acts, passed by the Parliament; the Presidential veto can be overridden by the votes of 101 Deputies. Further, the President appoints and recalls the Prime Minister and other members of the government of the Czech Republic (the "**Government**" or the "**Cabinet**") and accepts their resignations, recalls the Government (when so required under the Constitution) and accepts its resignation; appoints justices of the Constitutional Court, grants pardons for criminal acts; appoints the President and Vice-president of the Supreme Auditing Office; and appoints members of the Board of the Czech National Bank (the "**Czech National Bank**" or the "**CNB**"). Certain acts of the President are subject to the consent of the Government; this includes acts taken in the representation of the State in foreign relations, negotiation and ratification of international treaties, the appointment of judges and the declaration of amnesties. The current President, Václav Klaus, was re-elected for his second five-year term in February 2008. In 2003, he replaced the previous president and long-standing leader from the times of the Velvet Revolution, Václav Havel. Václav Klaus was one of the founding members of the Civic Democratic Party (the "**ODS**") and served in a number of important public offices including the posts of the Federal Minister of Finance (1989-91), Prime Minister of the Czech Republic (1992-97) and Chairman of the Chamber of Deputies (1998-2002).

Government

Currently, the executive branch of government in the Czech Republic consists of 18 members (the "**Ministers**"), including the Prime Minister. The Prime Minister is appointed, and under certain limited circumstances may be dismissed, by the President. The President also appoints and dismisses, at the request of the Prime Minister, the other Ministers of the Government.

The current Prime Minister is Mirek Topolánek, who has held the position since August 2006.

Judiciary

Under the Constitution, judicial power in the Czech Republic is vested in the Constitutional Court and a system of general courts. The system of general courts consists of the Supreme Court, the Supreme Administrative Court, two Superior Courts, eight Regional Courts and eighty-six District Courts.

The Constitutional Court is charged with upholding the Constitution and constitutional laws. The Constitutional Court decides on the compatibility of laws with the Constitution and constitutional laws; the compatibility of generally binding legal regulations other than laws with the Constitution, constitutional laws and other laws; and the compatibility of certain international treaties with the Constitution with constitutional laws. The Constitutional Court has the authority to rule in certain constitutional matters, in particular on the matters of eligibility, election or capacity to hold the office of members of the Parliament and on the impeachment of the President. The Constitutional Court finally decides jurisdictional disputes between state bodies and local governments, rules on claims of individuals and legal entities whose constitutional rights were infringed and decides on the measures necessary to implement decisions of international tribunals. Judges of the Constitutional Court are appointed by the President with the consent of the Senate for a term of ten years. All decisions of the Constitutional Courts are binding on all governmental bodies, legal entities and individuals.

The general courts are independent of other State authorities; they decide on all civil law and criminal law matters and they also examine the legitimacy of administrative bodies' decisions. The Supreme

Court, the Supreme Administrative Court, Superior Courts and Regional Courts have limited appellate and original jurisdiction. The Supreme Court, the Supreme Administrative Court and the Superior Courts exercise their original jurisdiction only in a limited number of cases. All judges of the general courts serve for life after appointment by the President. Judgments are declared in the name of the Czech Republic and always publicly. Judges are independent in their decision-making, they are bound only by law and international agreements which form a part of Czech law, and they have the power to consider whether legal acts other than laws are compatible with law or such international agreements.

As of 1 May 2004, enforceable judgments given in the courts of another EU member state became enforceable in the Czech Republic without review as to their substance, subject to their being declared enforceable upon application for such a declaration has been made by an interested party. Appeals against the above-mentioned declaration of enforceability in the Czech Republic, of judgments issued by the courts of other EU member states, will only be upheld if the recognition/enforcement of such judgment is, amongst others: manifestly contrary to public policy; unfair due to the defendant not being given an adequate opportunity to prepare a defence; irreconcilable with a judgment given in the Czech Republic between the same parties; or irreconcilable with an earlier judgment involving the same cause of action and between the same parties in another jurisdiction.

The Czech Republic is a party to the 1958 New York Convention on Recognition and Enforcement of Foreign Arbitral Awards which allows the enforcement and recognition in the Czech Republic of arbitration awards rendered in other participating states.

Public Defender of Rights

The Public Defender of Rights (ombudsman) was established as a new independent State body in 2000. The mission of the Public Defender of Rights is to assist individuals and legal entities in defending their rights and freedoms in relation to the acts of public administration authorities that violate the law or principles of a democratic legal state and proper administration, as well as in relation to complaints concerning the failure of such authorities to take action, procrastination and improper or unethical behaviour or conduct on the part of public officials.

Local Government

There is currently a two-tier system of local government in the Czech Republic, consisting of 14 regional and over 5,500 municipal authorities. Municipal governments have the authority to impose local levies within the limits established by law. The municipal authorities, as well as regional governments and the national Government, share power to regulate, *inter alia*, transportation, education and other issues.

The next ordinary municipal and regional elections are in 2010 and October 2008, respectively.

Recent Political Developments

The elections for the Chamber of Deputies held in June 2006 brought a victory for ODS, with 35.38 per cent. of the vote, followed by the Czech Social Democratic Party (the “**CSSD**”) with 32.32 per cent. of the vote, the Communist Party (the “**KSCM**”) with 12.81 per cent. of the vote, the Christian Democratic Party-Czechoslovak People’s Party (the “**KDU-CSL**”) with 7.2 per cent. of the vote and the Green Party with 6.29 per cent. of the vote.

The 2006 elections for the Chamber of Deputies resulted in the election of exactly 100 deputies for ODS, KDU-CSL and the Green Party (the “**SZ**”), and exactly 100 deputies for CSSD and KSCM, resulting in a deadlock. Negotiations between the five parties continued for many months, and the first Government named by the President failed to obtain Parliamentary approval. Finally on 19 January 2007, a second Government formed by ODS, KDU-CSL and SZ succeeded in being confirmed by Parliament, in part due to the support of two CSSD Deputies who subsequently defected from CSSD (but now being among unaffiliated deputies, are uncertain to vote with or against the coalition).

The following table shows a breakdown of the distribution of seats in the Chamber of Deputies among the deputies clubs of individual parties:

	Chamber of Deputies
Coalition Parties Total	100
– Civic Democratic Party (ODS).....	81
– Christian Democratic Party – Czechoslovak People’s Party (KDU-CSL)	13
– Green Party (SZ).....	6
Opposition Parties and Unaffiliated Total	100
– Czech Social Democratic Party (CSSD)	71
– Communist Party (KSCM).....	26
Unaffiliated Total	3
Total	<u>200</u>

Source: The Parliament, Chamber of Deputies

The Government’s ability to enact legislation (including the second stage of public finance reforms) depends on the support of all 100 members in all three coalition parties, and in addition on the support (or at least abstention) by some of the remaining deputies (such as the five unaffiliated deputies). Such support may be difficult to obtain, especially on crucial legislation, such as any fundamental reforms. Further, the weak Parliamentary support also means that the Government may be required to significantly modify its agreed plans and legislation in order to get it approved by the Parliament.

The following table provides a breakdown of the seats in the Senate among individual clubs:

	Senate
Coalition Clubs Total	52
– Civic Democratic Party Club (ODS).....	41
– Christian Democratic Party-Czechoslovak People’s Party (KDU-CSL).....	11
Other Clubs and Independent Senators Total	29
– Czech Social Democratic Party (CSSD)	13
– Open Democratic Club.....	7
– Club of Independent Candidates.....	6
– Senators not participating in any club.....	3
Total	<u>81</u>

Source: The Parliament, the Senate

A different voting system in the Senate has resulted in ODS and KDU-CSL (and thereby the current Government coalition) having a solid majority of votes in the Senate.

International Relations

The Czech Republic became a member of the United Nations in January 1993, as a successor to Czechoslovakia, which had been a member since 1945; in the same year the Czech Republic also became a member of the Council of Europe. On 12 March 1999, the Czech Republic joined NATO as a full member and in 1995 it became a member of the OECD. The Czech Republic is a member of the International Monetary Fund (the “**IMF**”), the International Bank for Reconstruction and Development (the “**World Bank**”), the International Finance Corporation (the “**IFC**”), the Multilateral Investment Guarantee Agency (the “**MIGA**”), the European Bank for Reconstruction and Development (the “**EBRD**”), and the World Trade Organisation (the “**WTO**”), which is based on the General Agreement on Tariffs and Trade (the “**GATT**”). The Czech Republic also participates in the Bank for International Settlements (the “**BIS**”).

In 2007, the United States of America (the “**United States**”, the “**U.S.**” or the “**USA**”) initiated discussions with the Czech Republic regarding the construction of a U.S. counter-missile military radar in the Czech Republic, including the permanent presence of American, and possibly also Russian troops, specialists and supervisors in relation thereto. The negotiations are still ongoing and the support of the radar differs across the political parties, as do opinions regarding the presence of foreign units and potential compensation provided for the radar to the Czech Republic by the U.S. government. The

implementation of the radar scheme in the Czech Republic will ultimately depend on obtaining sufficient political support in the Parliament.

In February 2008, the Czech Republic and the USA entered into a Memorandum of Understanding cancelling the requirement of U.S. visa and setting forth new procedures for Czech citizens travelling to the USA.

European Union

The Czech Republic joined the European Union on 1 May 2004. The first elections of the Czech Republic's 24 members to the European Parliament took place in June 2004. The elections brought a victory for ODS, with 30.04 per cent. of the vote, followed by KSCM with 20.26 per cent. of the vote, the Independent Candidates Association – European Democrats (the “**SNK-ED**”) with 11.02 per cent. of the vote, KDU-CSL with 9.57 per cent. of the vote, CSSD with 8.78 per cent. of the vote and independent candidates with 8.18 per cent. of the vote.

The following table shows a breakdown of the distribution of seats for the Czech Republic in the European Parliament as a result of the 2004 elections:

	European Parliament
Coalition Parties Total	11
Civic Democratic (ODS).....	9
Christian Democratic Party-Czechoslovak People's Party (KDU-CSL).....	2
Opposition Parties and Unaffiliated Total	13
Communist Party (KSCM)	6
Independent Candidates Association -European Democrats (SNK-ED)	3
Czech Social Democratic Party (CSSD).....	2
Independent	2
Total	24

Source: European Parliament

The Czech Republic acceded (with the exception of international airports) to the “Schengen” system that enables a higher degree of free movement of individuals among the participating states and regulates the protection of common external borders on 21 December 2007. With respect to international airports, the Czech Republic acceded Schengen and abolished controls at midnight between 29 and 30 March 2008.

The Czech Republic is also preparing for its EU presidency in the first half of 2009.

Disputes

The Czech Republic is involved in a number of disputes:

One of the largest disputes of the Czech Republic was with affiliates of the Japanese bank, Nomura. The dispute arose from the failure of Investiční a poštovní banka, a.s. (“**IPB**”), a large Czech bank which Nomura (together with other parties) had controlled. A Nomura affiliate, Saluka, filed a claim for CZK 40.6 billion against the Czech Republic under the Czech-Dutch Investment Protection Treaty, alleging expropriation of property and unfair treatment. The State commenced a separate arbitration in Switzerland (Zurich) against a London based affiliate of Nomura and Saluka, for a significantly higher amount of damages. The above claims were settled in 2006 and a quantification of potential payment by the Czech Republic to Saluka in the range of CZK 0 to 7 billion is currently subject to further decision.

In October 2005, Mittal Steel Company N.V. initiated arbitration proceedings against the Czech Republic under the Czech-Dutch Investment Protection Treaty, alleging limitation of its investment possibilities and unfair treatment in connection with the privatisation of Vítkovice Steel, a.s. Mittal claimed damages in the amount of CZK 25,9 billion. The proceedings were suspended in November 2007 due to the conciliation proceedings that have been commenced.

The Czech Republic has been sued by Invesmart B. V., a Dutch company, under the Czech-Dutch Investment Protection Treaty, alleging limitation of its investment possibilities and unfair treatment during the bankruptcy of Union banka. Invesmart B.V. claims €250 million.

During the early 1990's, the Ministry of Health excluded Diag Human, s.r.o., a Czech limited liability company, from a tender for the processing of blood plasma. Diag Human claimed damages in the amount of CZK 2 billion. In December 2002, the arbitration tribunal awarded Diag Human damages in the amount of CZK 326.6 million; however, Diag Human claims further damages as lost profits. The expert appraisal from Ernst & Young estimates the total indemnification of Diag Human including late charges (approximately 120 per cent. of the principal), at CZK 13 billion.

In August 2005, European Media Ventures, a Luxembourg company, filed a claim against the Czech Republic regarding its investment into a regional broadcasting company, TV3, amounting to USD 45 million. European Media Ventures claims that its investment was damaged by the unlawful practice of the Czech Council for Radio and Television Broadcasting.

A Canadian investor, Frontier Petroleum Services, claims under the Czech-Canadian Investment Protection Treaty 20 million USD from the Czech Republic, alleging limitation of its investment possibilities and unfair treatment.

In February 2004, Phoenix Action, LTD. filed the claim against the Czech Republic for the alleged violation of the Czech – Israel investment treaty. Israel investor is claiming the compensation in the amount of USD 41 million. For the time being, the request for arbitration was registered with the ICSID.

In August 2007, a German company InterTrade Holding GmbH filed the claim against the Czech Republic for the alleged violation of the Czech – Germany Investment Protection Treaty regarding its unsuccessful participation in the tender for the public procurement. The German company claims €87 million.

In November 2005, a German citizen Rupert Joseph Binder filed a claim against the Czech Republic, under the Czech–German Investment Protection Treaty, alleging unfair treatment and non-granting of full protection and security for his investment. Mister Binder asserts that his investment into the Czech transport company CARGO TRANSPORT-INTERNATIONALE SPEDITION, spol.s r.o. was damaged by the behaviour of the Czech Republic, especially of its customs authorities. The German investor claims damages in the amount of CZK 2.3 billion.

In March 2008, a German investor Peter Franz Vöcklinghaus filed a Notice of Dispute under the Czech–German Investment Protection Treaty, regarding his investment into the company KOMFORT V.P. Cihelny, spol. s r.o. which owned a lucrative golf course Cihelny. The German investor claims that the Czech Republic, in connection with the allegedly manipulated bankruptcy of the company KOMFORT V.P. Cihelny, subjected his investment to the measure having effect equivalent to expropriation. The German investor claims damages in the amount of CZK 982.8 million.

Church restitution claims

The Czech government proposed a new act concerning the redress of real estate property to 17 churches and religious societies (the “**Churches**”). Under the act, the Czech Republic would redress property to an aggregate value of CZK 51 billion. Further, in the upcoming 60 years, the state would pay the Churches a total sum of CZK 83 billion, with the interest rate being set at 4.85 per cent. per annum and with instalments of approximately CZK 4 billion each year. The proposed hearing regarding the act was postponed by the Parliament at the beginning of May 2008 until the Government supplies further information. The parliamentary opposition reasoning was that the pricing of the property did not correspond with prevalent redress and pricing practice, resulting in unreasonable expenditures.

THE CZECH ECONOMY

Economic Performance

The Czech economy has undergone significant changes since the fall of communism in 1989. Although previous communist governments had pursued conservative macroeconomic policies, which resulted in a relatively balanced monetary and fiscal position for their successors, substantial economic restructuring was required to adapt the Czech economy to two significant developments: the dissolution of the Council for Mutual Economic Assistance (the “**COMECON**”), the former intergovernmental body co-coordinating the economic development of its members; and the collapse of the Soviet Union in 1991, which until that time had been the CSFR’s largest trading partner.

Prior to 1990, the CSFR’s economic structure was focused primarily on heavy industry and lacked developed service and financial sectors. The new post-communist CSFR government elected in 1990 sought to establish a free market economy, implement extensive privatisation of publicly owned enterprises, open foreign trade, unify exchange rates, encourage competition and establish legal systems that would permit the development of a conventional commercial sector. Successive new governments permitted foreign investment and maintained relatively strict fiscal and monetary policies. However, the collapse of the Soviet Union led to a significant contraction in the Czech Republic’s main export markets, causing significant economic disruption throughout the country. The Czech economy began to grow again in 1993 and growth rate peaked at 5.9 per cent. in 1995 driven by strong domestic demand. In the late 1990’s, development was affected by two factors: difficulties in the state owned banking sector and the Russian crises. This resulted in negative growth rates in 1997 and in 1998. Since then, growth performance has been robust and the Czech economy has continued to grow at a rate of above 2 per cent. despite a significant global economic slowdown.

Since 2000, foreign direct investment has had a strong influence on the economy. The banking sector has been privatised and foreign companies now own a large majority of banking sector assets. Furthermore, the Czech Republic has seen strong inflows into new production capacity, particularly in the manufacturing sector.

The following table sets out certain macroeconomic statistics regarding the Czech Republic for the five years ended 2007:

	2003	2004	2005	2006	2007 (preliminary)
Economic Data					
Nominal GDP (CZK billions).....	2,577	2,814	2,987	3,231	3,557
Real GDP (growth in %)	3.6	4.5	6.4	6.4	6.5
Real exports (growth in %).....	7.2	20.7	11.8	14.4	14.5
Real imports (growth in %).....	8.0	17.9	5.0	13.8	13.7
Registered rate of unemployment (as at the year end (%)).....	10.3	9.5	8.9	8.1	6.6
Consumer prices (growth in %)	0.1	2.8	1.9	2.5	2.8
Producer prices (growth in %)	(0.3)	5.7	3.0	1.6	4.1
State Budget; Public and External Debt					
State budget surplus (deficit) (CZK billions)	(106.5)	(69.0)	(61.1)	(107.4)	(48.6)
as a % of GDP	(4.1)	(2.5)	(2.0)	(3.3)	(1.4)
General Government surplus (deficit) under ESA 95 methodology	(170.0)	(83.3)	(106.7)	(85.9)	(56.1)
as a % of GDP	(6.6)	(3.0)	(3.6)	(2.7)	(1.6)
Total revenues incl. grants (CZK billions).....	687.0	754.3	813.0	862.5	961.8
as a % of GDP	26.7	26.8	27.2	26.7	27.0
State debt (CZK billions), unconsolidated	493.2	592.9	691.2	802.5	892.3
as a % of GDP	19.1	21.3	23.3	24.8	25.1
General government debt, after consolidation (CZK billions)	553.0	659.4	762.1	877.7	973.2
as a % of GDP	21.5	23.4	25.5	27.2	27.4
General government debt under ESA 95 (CZK billions).....	775.0	855.1	888.6	951.5	1,019.4
as a % of GDP	30.1	30.4	29.7	29.4	28.7
Gross external debt (CZK billions) as a % of GDP	895.1	1,011.8	1,142.2	1,193.7	1,348.8
	34.7	35.9	38.2	36.9	37.9
Balance of Payments Data					
Current account (EUR billions)	(5.0)	(4.7)	(1.6)	(3.6)	(3.2)
as a % of GDP	(6.2)	(5.3)	(1.6)	(3.1)	(2.5)
Exports (EUR billions)	43.1	54.1	62.8	75.7	89.1
Imports (EUR billions)	45.2	54.5	60.8	73.4	84.9
CNB foreign exchange reserves (EUR billions)	21.34	20.88	25.05	23.88	23.70

Source: CNB, Czech statistical office, Ministry of Finance

Gross Domestic Product

The real GDP has grown steadily since 2000, year-on-year increasing by 6.5 per cent. in 2007. The respective contributions of individual demand components to the total economic performance over the last three years differed. While the main driver of the economic growth in 2005 was foreign trade (a contribution of approximately 75 per cent.), the key factor of economic growth in 2006 and 2007 was domestic demand (contributions of approximately 85 per cent.). Domestic demand was driven by both final consumption and gross capital formation with a relatively higher contribution of final consumption in 2007. Final consumption growth was caused by high growth rates of household consumption. High growth rates and contributions of gross capital formation were caused by investments in transport equipment, other buildings and structures and, especially in 2007, dwellings. The domestic demand was boosted by high disposable income growth together with increased credited consumption, high profitability of entities under foreign control and continuing FDI inflow. On the supply side of the economy, the total increase of 6.4 per cent. (constant prices) in gross value added was mainly due to the growth of manufacturing industry, trade, hotels and restaurants, transport and partly financial and entrepreneurial services. Development of the supply side of the economy in 2007 was caused by FDI allocation and the phase of business cycle resulting in positive output gap.

The industrial economic development was driven mainly by manufacturing. This influence stems from the fact that most FDI have been allocated in this sector.

The year-on-year GDP growth in 2007 significantly outperformed the average rate of growth within the Eurozone, where GDP growth in 2007 reached 2.6 per cent. year-on-year.

The following table sets out a breakdown of the sources of GDP by various economic sectors in 2007:

	2007
Sector	(%)
Agriculture, hunting, forestry, fishing	-14.0
Mining	-8.0
Manufacturing	11.1
Electricity, gas and water supply	-22.5
Construction	1.7
Wholesale and retail trade; repair	12.1
Hotels and restaurants.....	0.6
Transport, storage, communication	8.4
Financial services.....	14.7
Real estate sector	9.2
Other service activity measured financial services.....	2.4

Source: Czech statistical office, Ministry of Finance

Inflation

Year-on-year average consumer price inflation (the “CPI”) decreased in the year 2003. In 2004, however, CPI rose to 2.8 per cent. year-on-year from where it dropped to 1.9 per cent. year-on-year and rose again to 2.5 per cent. year-on-year in 2006 and to 2.8 per cent. year-on-year in 2007.

The following table sets out the average rates of inflation (against the preceding year) for the years 2003 to 2007:

	2003	2004	2005	2006	2007
			%		
CPI.....	0.1	2.8	1.9	2.5	2.8
PPI-industry.....	(0.3)	5.7	3.0	1.6	4.1

Source: Czech statistical office, CNB

Employment

The transition to a market economy in the Czech Republic has caused significant changes in employment and unemployment patterns. Registered rate of unemployment grew very slowly during the mid 1990s, remained relatively stable in the years thereafter, but jumped to 10.3 per cent. at the end of 2003, from where it has been steadily decreasing to 6.6 per cent. at the end of 2007.

The following table sets out the registered rate of unemployment as at the end of each of years 2003 to 2007 and the average unemployment rate (in accordance with International Labour Organisation (the “ILO”) methodology) for the same years:

	2003	2004	2005	2006	2007
			%		
Registered rate of unemployment ..	10.3	9.5	8.9	8.1	6.6
ILO unemployment rate	8.1	8.2	7.8	6.6	4.9

Source: Czech statistical office

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

The following table sets forth the balance of payments of the Czech Republic for the years 2003 through 2007:

	As at the year ended 31 December				
	2003	2004	2005	2006	2007
	<i>(EUR millions)</i>				
Current Account	(5,027.7)	(4,650.5)	(1,637.8)	(3,575.4)	(3,221.7)
Balance of trade	(2,183.6)	(425.5)	1,983.6	2,291.5	4,227.8
Exports.....	43,055.2	54,091.2	62,781.0	75,705.6	89,142.1
Imports.....	45,238.8	54,516.7	60,797.4	73,414.1	84,914.3
Balance of services.....	416.2	516.6	1,223.8	1,487.8	1,989.8
Revenues	6,879.7	7,761.1	9,477.6	10,936.3	12,307.4
Transportation	1,901.4	2,193.6	2,577.2	2,910.7	3,664.1
Travel	3,147.8	3,369.1	3,758.0	4,386.2	4,820.1
Other	1,830.5	2,198.4	3,142.4	3,639.4	3,823.2
Expenditures	6,463.5	7,244.5	8,253.8	9,448.5	10,317.6
Transportation	1,058.9	1,497.8	1,891.4	2,193.2	2,631.3
Travel	1,707.1	1,835.7	1,941.9	2,195.2	2,648.4
Other	3,697.5	3,911.0	4,420.5	5,060.1	5,037.9
Balance of Incomes.....	(3,754.3)	(4,932.3)	(5,221.6)	(7,115.2)	(9,154.2)
Credit	2,371.8	2,736.2	3,561.1	4,516.4	5,095.5
Debit	6,126.1	7,668.5	8,782.7	11,631.6	14,249.7
Current transfers	494.0	190.7	376.4	(239.5)	(285.1)
Credit	1,476.5	1,673.3	2,638.8	2,261.4	2,977.9
Debit	982.5	1,482.6	2,262.4	2,500.9	3,263.0
Capital Account	(2.6)	(458.2)	157.9	300.2	723.3
Revenues	6.3	177.0	186.0	504.6	782.3
Expenditures	8.9	635.2	28.1	204.4	59.0
Financial Account	4,922.3	5,628.1	5,179.7	3,719.8	3,826.4
Direct investments	1,692.2	3,185.3	9,365.9	3,632.5	5,731.9
Abroad.....	(183.0)	(823.7)	11.7	(1,171.9)	(978.9)
In the Czech Republic.....	1,875.2	4,009.0	9,354.2	4,804.4	6,710.8
Portfolio investments	(1,130.6)	1,633.2	(2,736.3)	(933.1)	(1,882.4)
Assets	(2,638.8)	(2,233.6)	(2,749.5)	(2,407.2)	(3,401.8)
Liabilities	1,508.2	3,866.8	13.2	1,474.1	1,519.4
Financial derivatives	122.2	(105.9)	(94.8)	(221.5)	56.7
Assets	220.8	(502.6)	(88.6)	(388.8)	(527.4)
Liabilities	(98.6)	396.7	(6.2)	167.3	584.1
Other investments	4,238.5	915.5	(1,355.1)	1,241.9	(79.8)
Assets	2,124.6	(932.4)	(3,856.1)	(1,115.0)	(5,363.8)
Long-term	42.6	653.8	(556.4)	(214.7)	(1,697.8)
Short-term	2,082.0	(1,586.2)	(3,299.7)	(900.3)	(3,666.0)
Liabilities	2,113.9	1,847.9	2,501.0	2,356.9	5,284.0
Long-term	820.1	1,145.5	1,642.7	2,427.7	1,406.7
Short-term	1,293.5	702.4	858.3	(70.8)	3,877.3
Sub-Total	(108.0)	519.4	3,699.8	444.6	1,328.0
Net errors and omissions, FX differences	514.1	(312.3)	(612.9)	(371.5)	(736.8)
Total	406.1	207.1	3,086.9	73.1	591.2

Source: CNB

Note: The data for years 2004-2006 were revised retroactively in 2007.

Current Account

The current account deficit of the Czech Republic has slowly increased from approximately €1.6 billion in 2005 to approximately €3.6 billion in 2006 and then dropped to approximately €3.2 billion in 2007. As a percentage of GDP, the current account deficit represented 2.5 per cent. in 2007. The principal reason behind the decrease of the current account deficit is the increasing surplus in balance of trade and services.

The financial account surplus amounted to €4.9 billion in 2003 and, except for an increase to €5.7 billion in 2004, has had a decreasing trend to approximately €3.7 billion in 2006. In 2007, the financial account surplus increased again to approximately €3.8 billion.

Foreign Trade

Since 2003, the trade balance has been steadily improving. In 2005, the positive development continued and, for the first time, the volume of exports exceeded the volume of imports and a trade balance surplus was achieved. This was principally driven by increased growth in the volume (and to a lesser extent the price) of exports, which exceeded growth in the volume and price of imports.

From a territorial perspective, a trade balance surplus was achieved with EU countries in the amount of approximately CZK 414.718 billion in 2007, compared to CZK 349.774 billion in 2006.

The following table provides information about the development and the territorial composition of the Czech Republic's balance of trade for the period from 2003 to 2007:

	As at and for the year ended 31 December				
	2003	2004	2005	2006	2007
	<i>(CZK millions, in current prices)</i>				
Total imports	1,440,723	1,749,095	1,829,962	2,104,812	2,387,396
Index.....	108.7	121.4	104.6	115.0	113.4
Developed market economies.....	1,166,416	1,439,964	1,480,132	1,674,071	1,894,988
– of which 25* EU countries.....	1,034,210	1,264,203	1,309,115	1,487,278	1,692,082
Developing economies.....	106,432	110,805	104,136	117,283	137,308
European transition economies and CIS in total	88,447	101,128	146,332	179,636	162,141
OECD Countries.....	1,157,946	1,429,948	1,467,313	1,657,714	1,879,386
Total exports	1,370,930	1,722,657	1,868,586	2,144,573	2,472,351
Index.....	109.2	125.7	108.5	114.8	115.3
Developed market economies.....	1,276,393	1,597,952	1,714,211	1,967,937	2,252,230
– of which 25* EU countries.....	1,196,871	1,500,796	1,597,541	1,837,052	2,106,800
Developing economies.....	39,942	54,319	66,779	69,677	84,625
European transition economies and CIS in total	39,489	55,356	76,073	95,311	118,492
OECD countries.....	1,241,904	1,554,850	1,661,017	1,901,365	2,170,449

Source: Czech statistical office

* Note: Since 2007, the foreign trade statistics include 27 EU countries.

Foreign direct investment

Supported by investment incentives, the Czech Republic received in total CZK 2,002 billion (€62.2 billion) in foreign direct investment (“**FDI**”) from 1993 to the end of 2007. The amount of FDI inflows has a slightly decreasing trend in the past four years (except for the year 2005), mainly due to the termination of large privatisation projects (Český Telecom, Unipetrol and Vítkovice Steel in 2005). The structure of FDI has also changed, from new investments to reinvestment of earnings, while, at the same time, the investors tend to invest into areas with higher value added.

The following table sets forth historical records of foreign direct investments in the Czech Republic and Czech direct investments abroad during each of the years 2003 to 2007:

	As at and for the year ended 31 December				
	2003	2004	2005	2006	2007 (preliminary)
	(CZK millions)				
Direct investment:					
Abroad.....	(5,815.7)	(26,067.3)	449.0	(33,169.6)	(27,088.9)
Equity capital.....	344.0	(11,611.4)	(7,968.2)	(22,346.5)	(5,569.4)
Reinvested earnings.....	(3,468.6)	(8,648.6)	3,705.4	(11,540.2)	(10,463.8)
Other capital.....	(2,691.0)	(5,807.3)	4,711.8	717.1	(11,055.6)
In the Czech Republic.....	59,316.1	127,843.6	279,181.5	135,947.8	185,274.4
Equity capital.....	(1,539.9)	45,724.2	184,317.8	42,409.8	57,455.4
Reinvested earnings.....	60,890.3	75,758.7	78,154.0	99,705.3	130,648.4
Other capital.....	(34.4)	6,360.7	16,709.7	(6,167.3)	(2,829.4)
Net direct investment.....	53,500.4	101,776.3	279,630.5	102,778.2	158,185.5

Source: CNB

Of the total amount of FDI inflow during the period from 1993 to 2007, approximately 30 per cent. went into manufacturing (especially into the production of machines, electrical and optical equipment and means of transport), approximately 19 per cent. was directed into the financial, banking and insurance industry, 11.6 per cent. into trade, maintenance, hotels and restaurants and nearly 13.8 per cent. into real estate services.

The following table sets forth the distribution of net FDI in the Czech Republic by industry sector during each of the years 2003 to 2007:

	As at and for the year ended 31 December				
	2003	2004	2005	2006	2007 (preliminary)
	(CZK millions)				
Non-manufacturing					
Agriculture, hunting, and forestry.....	53	2,144	(25)	1,466	471
Mining and quarrying.....	874	3,393	(3,860)	(1,879)	8,767
Electricity, gas, and water supply.....	7,036	7,441	10,276	(592)	(3,528)
Construction.....	4,321	305	2,189	3,218	3066
Trade, hotels and restaurants.....	18,449	19,002	8,597	29,283	15,810
Transport, storage and communications.....	(82 178)	6,934	138,318	(2,722)	2,681
Financial intermediation.....	25,153	19,634	54,144	26,583	37681
Real estate and business activities.....	12,411	42,243	51,808	32,574	40878
Education.....	26	5	(63)	(103)	(124)
Health and social work.....	(82)	1	393	187	(1)
Other social and personal services.....	(569)	(932)	(4,738)	9,627	1,347
Non-manufacturing total.....	(14,507)	101,843	257,040	97,642	107,048
Manufacturing					
Food and tobacco.....	2,925	198	2,722	3,669	7,391
Textiles, wearing apparel, and leather.....	(349)	(279)	(947)	510	1,733
Wood, paper and publishing.....	1,060	7,122	4,322	2,168	87
Refined petroleum and chemicals.....	2,485	6,848	8,357	12,751	13,730
Non-metallic products.....	2,447	32	5,499	(5987)	7,147
Basic metals and metal products.....	18,607	12,967	1,697	7,329	12,093
Machinery and equipment.....	46,596	(993)	186	16,882	35,519
Recycling and other manufacturing ..	53	106	306	984	528
Manufacturing total.....	73,823	26,001	22,142	38,306	78,227
Total.....	59,316	127,844	279,182	135,948	185,275

Source: CNB

Investment Incentives

As part of its economic transformation efforts, the Czech Republic has pursued a policy of encouraging foreign direct investment as a means of attracting capital, infusing new managerial skills and creating employment opportunities.

Since 2000, the Government has offered a standardised package of investment incentives for industrial companies, offered pursuant to terms specified in Czech law and not limited to foreign investors. This programme has included, among other, the following measures: reduced corporate income tax for new investors, financial support for creating new places of work, financial support for the training of employees, customs duty exemptions, the provision of subsidies to municipalities to create industrial zones, and the provision of financial support when introducing environmentally friendly technologies. Changes of the current form and conditions of the investment incentives have been recently discussed by the Government.

The legal framework of the programme was discussed with the European Commission from a state aid perspective within the accession negotiations with the Czech Republic. As a result, the European Commission need not review aid granted to investors under this programme on an individual basis (such aid is merely reviewed by the Czech Competition Office).

PRIVATISATION AND TRANSFORMATION INSTITUTIONS

Privatisation

From 1991 through to the end of 2007, total revenues from privatisations reached CZK 716.06 billion, of which the revenues in 2007 formed CZK 21.32 billion. Privatisation revenues have a decreasing trend compared to previous years, mainly due to the completion of large privatisations, including the bidding sector, national monopolies (particularly in the energy and gas industries), telecommunications, steel, oil and petrochemical companies, mainly to foreign investors.

A list of the residual interests held by the Czech Republic through the Ministry of Finance in strategic companies as at 31 December 2007 is provided below, together with details of their current status:

Company	Business	Value of the State stake based on Ministry of Finance Valuation	State stake	Status
<i>(CZK millions)</i>				
ČEPRO, a.s.....	Oil and Gas	5,660.00	100.00	No plan adopted.
Letiště Praha, a.s.....	Airport	–	-100.00*	Privatisation planned to start in 2008.
České aerolinie, a.s.	Airline	–	91.5**	Tender for privatisation adviser launched in May 2008.
ČEZ, a.s.....	Electricity	38,694.58	65.34	No plan adopted.
MERO ČR, a.s.....	Oil and Gas	8,430.92	100.00	No plan adopted.

Source: Ministry of Finance

*Note: Letiště Praha, a.s. was formed on 6 February 2008, the current State stake is 100 per cent.

**Note: The current State stake in České aerolinie, a.s. is 91.51 per cent.

Apart from the companies controlled by the Czech Republic through the Ministry of Finance, the State also operates the Czech Post Office (Česká pošta, s.p.) and Czech Railways (České dráhy, a.s.). Although a privatisation of these entities is planned for the future, currently there are no definitive plans as to when any of these operations will be privatised. Prior to their privatisation, the Czech Post Office should undergo a transformation process from state-enterprise to a joint stock company.

The proceeds earned from privatisations do not form part of the State budget of the Czech Republic and may only be used for purposes provided by law. Historically, privatisation proceeds have been used principally to cover losses of the Czech Consolidation Agency, to provide financial resources for the infrastructure and housing funds, to cover deficits of the social insurance system and to cover payment obligations arising from environmental indemnities provided by the former National Property Fund (Fond národního majetku) (the “NPF”) to privatised companies in connection with their privatisation. They may also be used for other purposes determined by the Government resolutions within the limits set by law. The proceeds from the currently planned privatisations shall be used for financing environmental obligations, infrastructure and implementation of pension reform. Pursuant to the accounting methodology used by the Czech Republic, the NPF always formed part of the general government. Accordingly, the results of the operation of the NPF and its assets and liabilities had historically been included in the consolidated general government deficit and debt.

The former NPF has granted a significant amount of indemnities and guarantees to governmental institutions as well as private companies. Most importantly, they include indemnities provided to privatised companies and privatisation investors against environmental losses resulting from past environmental burdens relating to the privatised companies (approximately CZK 160 billion), guarantees provided to the Czech Consolidation Agency in relation to certain transactions and guarantees provided to privatised companies for the purposes of supporting their viability.

Due to accounting methodology differences and due to the miscellaneous nature of different kinds of liabilities, the liabilities in relation to past environmental burdens are not reflected in the debt figures throughout this Offering Circular. They represent explicit government liabilities nevertheless and have to be financed by privatisation revenues or debt instruments in the medium-term horizon.

National Property Fund

The former NPF was established in 1991 as a special purpose vehicle to carry out Czech privatisations. The basic function of the NPF was to execute the sale of State enterprises in accordance with privatisation projects approved by the Government (or the Ministry of Finance in certain cases) and temporarily to manage state interests in certain companies prior to their privatisation. The NPF itself did not decide on the manner or timing of privatisations.

As the purpose for which the NPF was formed was substantially fulfilled, it was liquidated at the end of 2005 and all of its assets and liabilities has been transferred to the Ministry of Finance as of 1 January 2006.

Czech Consolidation Agency

The former Czech Consolidation Agency (Česká konsolidační agentura) (the “**CKA**”) was founded by a special law in 2001, to assume all the assets and liabilities of the Consolidation Bank, a state financial institution formed in 1991 as a specialised bank to address the problem of non-performing loans that had arisen in the banking system after 1989.

The role of the CKA has been to administer, collect and realise non-performing receivables from distressed companies, including banks, assumed pursuant to Government decisions. CKA also executed, in accordance with Government instructions, revitalisation and restructuring programmes relating to Czech businesses.

As the purpose for which the CKA was formed has been substantially fulfilled, the CKA terminated its activities and ceased to exist as of 31 December 2007 without liquidation. Before its termination, part of the receivables held by CKA were transferred to a limited liability company, which was then sold based on the best price criterion. The remaining assets of CKA, represented mainly by strategic receivables (e.g. receivables against municipalities), equity interests, and a portfolio of receivables with legal defects were transferred to the Ministry of Finance as of 1 January 2008.

MONETARY AND FINANCIAL SYSTEM

Czech National Bank

Established in 1993, the CNB is the central bank of the Czech Republic, and the successor within the Czech Republic to Státní banka Československá, the central bank of the former CSFR. The CNB is constituted and operates as an independent institution, as set forth in the Czech Constitution.

The primary objective of the CNB is to ensure price stability as a prerequisite of balanced and long-term sustainable growth. Price stability thus takes precedence over other monetary policy goals. The CNB is responsible for setting and implementing both monetary and foreign exchange policy. The CNB's power to determine monetary policy is not subject to any review or consent by the Government. The CNB also administers the official foreign exchange reserves, regulates the banking, insurance and capital markets sector and acts as banker to the Government.

The supreme governing body of the CNB is the Bank Board, consisting of the Governor, two Vice-Governors and four other senior officers of the CNB appointed by the President of the Czech Republic for a term of six years. The Bank Board sets monetary policy, determines the Notes for implementing that policy, and decides upon the fundamental monetary policy measures of the CNB and other fundamental measures. Board members, who may not hold other government positions, cannot normally be removed from office but may only serve two terms. The current CNB Governor was appointed in December 2000 and reconfirmed as CNB Governor in February 2005 for another six-year term.

Monetary Policy

As set forth in the Czech Constitution and the Act on the CNB (the “**CNB Act**”), the CNB's primary monetary policy objective is to maintain price stability. Without prejudice to this primary objective, the CNB aims to support the general economic policies of the Government leading to sustainable economic growth.

The current monetary-policy regime of the CNB is based on direct inflation targeting. In March 2004, the CNB announced that the inflation target for the period beginning January 2006 is a year-on-year consumer price index change of 3 per cent. The CNB will at the same time endeavour to ensure that actual inflation does not differ by more than one percentage point in either direction from this target. In March 2007, a new inflation target of 2 per cent. was announced with effect from January 2010. As before, the CNB will strive to ensure that actual inflation does not differ from the target by more than one percentage point on either side. The inflation target was designed as a starting point for the future fulfilment of the convergence criteria and should correspond to the long-term inflation expectations of the financial markets.

The CNB continues to regard its inflation targets as medium-term targets from which actual inflation may deviate temporarily. Such a deviation comes into consideration especially if the economy is hit by an ‘exogenous shock’. If such a shock deflects expected inflation from the target, the CNB does not respond to the primary impacts of the shock. It will apply an exemption (‘escape clause’) from the obligation to hit the inflation target and accept the deviation of the inflation forecast from the target caused in this way. There can be a whole range of shocks which create room for applying such escape clauses. They include, for example, major deviations in world prices of energy raw materials or major deviations in agricultural producer prices. A specific type of exogenous shock comprises administrative measures that have strong price impacts, in particular, major changes in the structure or rates of indirect taxes and major changes in the segment of regulated prices.

The following table sets forth the principal annual interest rates as at the end of each of the five years ended on 31 December 2007:

	As at the year ended 31 December				
	2003	2004	2005	2006	2007
			(%)		
Discount rate.....	1.00	1.5	1.5	1.5	2.5
Lombard rate	3.00	3.5	3.00	3.5	4.5
Repo rate (2 weeks)	2.00	2.5	2.0	2.5	3.5

Source: CNB

Exchange Rate Policy

In the early 1990s, political and economic reforms were accompanied by a series of devaluations. In October 1995, a new foreign exchange act was adopted, liberalising foreign exchange restrictions, introducing full current account convertibility and extending convertibility for capital account purposes. With this new law, the Czech Republic complied with all the requirements of Article VIII of the International Monetary Fund Agreement. Until 1997, the exchange rate of the Czech currency was pegged to a basket of currencies. In 1997, the fixed exchange rate policy was replaced by a managed floating rate system.

The foreign exchange act of 1995 was significantly liberalised following the accession of the Czech Republic to the EU in 2004 and continues to provide the legislative framework for foreign exchange regulation.

The exchange rate is not a direct instrument of monetary policy. However, the CNB has used exchange rate interventions to curb any extreme movements in the exchange rate of the Czech currency in cases in which the CNB believed that the changes had not been justified by economic fundamentals. There has been no FX interventions from the CNB since October 2002.

The following table sets forth the exchange rate of the Czech koruna against the euro and the USD, as an average rate, during each of the five years ended on 31 December 2007:

	As at the year ended 31 December				
	2003	2004	2005	2006	2007
CZK/EUR	31.84	31.90	29.78	28.34	27.76
CZK/USD.....	28.23	25.70	23.95	22.61	20.31

Source: CNB

Banker to the Government

The CNB acts as banker to the Czech Republic, providing cash management and accounting services. It keeps the accounts of the State Budget, State funds and State financial assets and liabilities. Under the CNB Act, the CNB may act on behalf of the Ministry of Finance in relation to the issue and servicing of State bonds and is required to keep a register of short-term securities maturing within one year.

Gold, Bank Notes and Coins

In addition to maintaining the foreign currency reserves, the CNB also holds gold reserves as part of its international reserves (see “*Monetary and Financial System International Reserves*”). The CNB has reported that it has reduced its level of gold reserves to an amount that is no longer significant, and that its policy going forward is to hold more liquid financial instruments. The CNB has the exclusive right to issue bank notes and coins in the Czech Republic and supervises the printing of notes, the minting of coins and the general circulation of money. Its obligations in respect of notes issued are not required to be covered to any extent by gold or convertible currencies.

Other Activities

The CNB is responsible for preparing drafts of any legislation dealing with the Czech currency, the money market, the payments system and the role of the CNB. It is also required under the CNB Act to regulate the payment system among banks and the clearing of accounts between them, and to establish a banking information system.

International Reserves

The international reserves of the CNB decreased in 2007 by CZK 25.6 billion compared to 2006. At the end of 2007, gross international reserves stood at CZK 631 billion, equivalent to approximately 17.7 per cent. of the GDP for 2007.

The following table sets out the Czech Republic's international reserves for the years ended 31 December 2005 to 2007:

	As at 31 December		
	2005	2006	2007
		(CZK billions)	
Reserves.....	726.7	656.6	631.0
% of GDP	24.3	20.3	17.7

Source: CNB

The active management of reserves investments results in further growth of international reserves assets, which is considered undesirable. The Board has stated that, in this situation, it is appropriate to implement a strategy to sell at least part of the reserves investments revenues on the market. These sales will act against the growth in the volume of sterilisation which represents the largest part of the CNB's liabilities. The sales of reserves investments revenues will be carried out gradually, in small volumes and if the market conditions (including liquidity, depth and trend changes) are considered appropriate.

Strategy of the Czech Republic with respect to ERM II

The strategy of the Czech Republic, with respect to its participation in the Exchange Rate Mechanism (the "ERM II") and the introduction of the euro as the official Czech currency, was jointly prepared by the CNB and the Ministry of Finance and approved by the Government in 2003. The document summarises the key points for the Czech Republic's integration into European monetary structures and discusses the positive effects and potential risks associated with joining the Eurozone. The document recommended that the Czech Republic joins the euro area as soon as economic conditions allow, rather than as soon as possible.

Upon joining the EU, the Czech Republic automatically participates in the third stage of EMU with the status of "Member State with a derogation" concerning adoption of the euro. Under the EU legislation, prior to adopting the euro, the Czech Republic must have fulfilled the following convergence criteria (the "Maastricht criteria"):

- price stability – a member state maintains a sustainable price performance and achieves an average rate of inflation (measured over a period of one year before the examination) that does not exceed, by more than 1.5 percentage points, the average rate of inflation of the three member states which perform the best in terms of price stability;
- long-term interest rates – a member state has had an average nominal long-term interest rate (measured over a period of one year before the examination) that does not exceed, by more than 2 percentage points, that of, at most, the three best performing Member States in terms of price stability;
- the Government budgetary position – a member state has a ratio of planned or actual Government deficit to GDP that does not exceed 3 per cent., unless either (i) the ratio has declined substantially and continuously and reached a level that comes close to the reference value, or, alternatively (ii) the excess of the reference value is only exceptional and temporary and the ratio remains close to the reference value.

The convergence criteria required for entering the euro area are formally assessed on a regular basis and the final decision is subsequently made by a summit of EU Member States acting on the recommendation of the ECOFIN Council.

The strategy of the Czech Republic was updated by the Ministry of Finance and the CNB and approved by the Government on 29 August 2007. The updated version evaluates up to now fulfilment of the convergence criteria, feasibility of the Czech Republic to operate within the euro area and readiness of the Czech economy to adopt the euro. It does not include any particular date for joining the Eurozone and it calculates with at least three-year period of technical preparations for adopting the euro.

The Czech Republic previously stated that it does not intend to stay in the ERM II for a period longer than the required minimum of two years (required by the exchange rate condition) and, accordingly, that it anticipates entering the ERM II only when conditions have been established which enable it to introduce the euro at the time of the assessment of the exchange-rate criterion, i.e., two years after joining the ERM II. Therefore, the technical preparations should be started at the moment of the decision to join the ERM II.

Based on the assessment of the fulfilment of the Maastricht convergence criteria and the degree of economic alignment of the Czech Republic with the euro area, which is a joint document of the Ministry of Finance of the Czech Republic and the CNB approved by the Government of the Czech Republic on 19 December 2007, the Ministry of Finance and the CNB recommended to the Government that the Czech Republic should not attempt to enter the ERM II during 2008. This decision also meant postponing the Czech Republic's potential entry into the euro area beyond the originally planned horizon of 2009-2010.

In April 2007, the Government approved the National Plan for Euro Adoption, which is a technical plan including scenarios and procedures for euro adoption, such as dual pricing, dual currency, etc. Furthermore, the convergence programme of the Czech Republic was updated on 28 November 2007.

Czech Banking Sector

General

The Czech banking sector currently consists of 22 banks (15 of which are controlled by foreign persons or entities) and 14 branches of foreign banks. Foreign investors have secured a dominant role in the sector's capital, with a share of around 83 per cent. as at 31 December 2007, which is the same percentage as the previous year. Foreign capital effectively manages around 97 per cent. of the total assets in the banking sector. The privatisation of the commercial banks was completed in 2002. The state has retained stakes in the banking institutions established only in order to support exports and small and medium-sized enterprises.

The total assets of the banking sector rose by 11.9 per cent. in 2007, reaching CZK 3.746 billion. Primary deposits amounted to approximately 65.6 per cent. of total liabilities in December 2007, which represents a decrease of 1.1 per cent. points compared to the previous year. The banking market is significantly concentrated and further concentration can be expected in the future. One group of four large banks accounts for 56.4 per cent. of client loans and 64.1 per cent. of primary deposits.

Average capital adequacy exceeded 11.5 per cent. at the end of 2007, with none of the banks falling below the threshold of 10 per cent.

Banking Supervision

The CNB is responsible for the general supervision of the banking system and, as part of its responsibilities, carries out inspections to establish whether banks operating in the Czech Republic are acting in compliance with the banking licences granted to them. The CNB also regulates the capital adequacy and liquidity of such banks. In addition, it supervises their credit policies and controls their dealings in the foreign exchange market. All banks in the Czech Republic are required to maintain an account with the CNB, on which the required reserves are held.

The CNB is the licensing authority for all new banks as well as for any foreign banks wishing to establish operations in the Czech Republic. According to the single passport rule adopted by the Directive 2003/71/EC, banks with their registered seat in the member states of the EU may establish operations in the Czech Republic without the need to obtain a licence from the CNB. Generally, such foreign banks remain under the supervision of their domestic bank authorities.

Banking Regulation

Czech banks and branches of foreign banks, which do not operate in the Czech Republic under the single licence regime, are subject to the regulation by the CNB Act, the Czech Banking Act and regulations issued by the CNB. To the extent that banks act as securities dealers, they are also regulated by rules applicable to securities dealers. In an effort to continue to harmonise the Czech banking system with that of the EU, Parliament adopted a substantial amendment to the Czech Banking Act in 2002. This amendment (introducing, *inter alia*, the concept of banking supervision on a consolidated basis) came into force on 1 May 2002 with the exception of certain provisions that came into force as of the Czech Republic's accession to the EU on 1 May 2004. Between 2004 and 2007, the Czech Banking Act was

amended several times, mainly in connection with amendments of other laws within the process of incorporation of EU directives. In an effort to modernise the Czech banking system in accordance with international standards, the CNB has issued a number of regulations relating to: (i) liquidity and statutory minimum reserves; (ii) capital adequacy; (iii) credit exposure; and (iv) the classification of credit exposures and the creation of provisioning for such loans. These regulations also apply to the branch offices of foreign banks (from third countries) to the extent provided in each regulation. Currently, a draft new regulation is in the pipeline, which should implement the Basel II capital adequacy requirements.

Deposit Insurance

Czech banks and in certain cases also branches of foreign banks are required to maintain adequate insurance from a deposit insurance fund administered by the CNB. All deposits, including interest, in both Czech or foreign currency, are insured. Up to 90 per cent. of the aggregate deposit is insured, up to €25,000, for any one depositor at any particular bank. The annual contribution of each bank or branch of a foreign bank into the deposit insurance fund amounts to 0.1 per cent. of the average of total deposits of insured accounts, including interest, for the given year. Compensation for an insured deposit is payable after written confirmation from the CNB of the bank's inability to discharge its obligations to the depositor or, in case of a branch of a foreign bank, after similar confirmation from the bank's relevant supervisory authority.

Integration of Supervision over the Financial Market

The supervisory authority over Czech financial markets was historically divided among four agencies and was gradually consolidated under a single supervision of the CNB during 2005 and 2006.

The main regulator of the capital markets in the Czech Republic used to be the Czech Securities Commission, which supervised capital market professionals' compliance with applicable laws and regulations, issued licences to professionals operating on the Czech capital market, supervised the offering of securities, approved prospectuses, supervised reporting and other issuer and capital market professional obligations, and performed all other roles of a market regulator. The Czech Securities Commission ceased to exist on 31 March 2006 and the role of the market regulator was transferred to the CNB as of 1 April 2006.

As of the same date, the CNB has also taken over the activities of the Office for Supervision over Insurance Companies and Pension Funds, previously established at the Ministry of Finance, and the activities of the Office for Supervision over Credit Unions. As a result, the CNB now has the role of an integrated regulator and supervisor in the areas of banking, foreign exchange regulation, capital markets, insurance, pension funds and credit unions.

In its role as an integrated regulator, the CNB now issues bank licences, supervises compliance with applicable laws and regulations by banks and other financial market professionals, and governs Czech monetary policy. It also supervises insurers, pension funds and credit unions, and performs all the activities of the former Czech Securities Commission.

Czech Capital Markets

The Czech capital markets are primarily governed by the Capital Markets Act, the Securities Act, the Bonds Act, the Act on Supervision of Capital Markets, the Collective Investment Act, and regulations issued mainly by the CNB. Most of the relevant laws were significantly amended or a completely new regulations were adopted in the spring of 2004 (including the new Capital Markets Act effective from 1 May 2004) and then again in spring 2006 in order to harmonise Czech capital markets law with the requirements of the EU. As of the date hereof, the legal framework established by these acts and regulations generally implements all relevant EU directives regulating capital markets, although the MiFID is yet to be implemented.

Prague Stock Exchange

The Prague Stock Exchange (the "PSE") commenced operations in April 1993 after a 54-year moratorium. The PSE is the principal public securities market in the Czech Republic on which shares, bonds and unit certificates are traded. In addition thereto, the PSE also enabled the admission and trading of investments certificates and warrants and launched derivatives trading from 2006.

The PSE is a private organisation currently comprising 22 members. Only licensed securities dealers who are members of the PSE are permitted to trade on the PSE, which is regulated by the Capital Markets Act and its internal rules.

As of 1 May 2004, the PSE became a member of the Federation of the European Securities Exchanges. In May 2004, the U.S. Securities and Exchange Commission officially granted “designated offshore securities market” status to the PSE and included it on the list of reliable offshore exchanges.

As at 31 December 2007, equity securities representing 32 companies were registered for trading on the PSE, of which equity securities representing 21 companies were registered for trading in the Main Market and 11 in the Free Market. The equity market capitalisation at such date with respect to companies registered for trading in the Main Market and all companies registered for trading on the PSE was approximately CZK 1,819.438 billion and CZK 1,841.682 billion, respectively.

Trading. Prompt trades can be divided into automatic trades (order-driven system), block trades and SPAD (Systém pro podporu trhu akcií a dluhopisů) trades (a price-driven system) with the participation of market makers.

Automatic trades and SPAD trades are concluded through the PSE’s trading system. There are two kinds of automatic trades, auction automatic trades and continual automatic trades. Auction automatic trades are based on a one-time evaluation of accumulated orders and on the single auction price determined for each security and applied throughout the stock trading system. Given the auction principle for trading and for setting the universal daily rate (price), this form of trading is also referred to as “fixing”. Under the continual regime, trades are contracted on the basis of the continual input of orders for the purchase and sale of securities. If orders with the same price are entered, priority is given to the order entered earlier. Trading within SPAD is based on the principle that selected stock exchange members, the market makers (the “MMs”) provide quotations for purchase and sale prices on a continual basis; the MMs at the best quotation is obliged to confirm the instruction which as the first responded to his quotation.

Block trades are effected in two ways: between PSE members and between a PSE member and a non-member. The price for a contracted trade is neither limited nor tied to the official price of a security. Block trades are effected outside the PSE system but are then registered by PSE members within the system. Guarantees do not apply to these trades.

In addition to the prompt trades described above, PSE also enables trades with the participation of a specialist (intended for trading of products where it is not possible to provide for a sufficient number of market makers when trading in SPAD, currently intended only for trading with investment certificates and warrants) and futures trades. Futures are traded on the same basis as SPAD trading, i.e. market liquidity is ensured by market makers, whose task it is to maintain supply and demand for assigned futures series.

Settlement. Univyc, a. s. (the “Univyc”), a wholly-owned subsidiary of the PSE, is licensed to settle trades on the PSE. The manner in which trades are settled depends on whether the securities are in a certificated or book-entry form. The majority of securities traded on the PSE are in a book-entry form and are registered at the Securities Centre, a computerised register of all Czech book-entry form securities (described below), although there is a significant amount of securities of foreign issuers recently admitted to trading on the PSE, which are not registered at the Securities Centre. Settlement of trades on the PSE is generally effected on the third business day following the trading day. Univyc maintains accounts of the members of the PSE and a number of accounts of non-members of the PSE and records the securities traded. Univyc ensures cash settlement through the Clearing Centre of the CNB and the delivery of the securities in a book-entry form to the purchaser on its account at the Securities Centre, or on its account with Univyc, where applicable.

The members of the PSE have created the Guarantee Fund of the Prague Stock Exchange, administered by Univyc to guarantee the fulfilment of the obligations of members of the PSE arising from automatic trades and the trades in the SPAD system.

RM System

The RM System is a privately owned entity in which securities trading takes place through a computerised bid and offer matching system that operates every business day. Trades through the RM System may be placed either by a securities broker or directly by an investor. Trading on the RM System is conducted through a network of 57 designated locations. The auction price varies during the course of the day according to the actual bids and offers. Settlement takes place on the same trading day. Book-entry securities traded on the RM System are settled through the Securities Centre.

OTC Market

In addition to the regulated securities markets (the PSE and the RM System), securities (mainly debt securities) are also traded on the over-the-counter (“**OTC**”) market and settled directly at the Securities Centre. The Securities Centre publishes the volumes and prices of the securities traded on the OTC market on a weekly basis.

Securities Centre

Most securities traded on the PSE are in book-entry form, registered at the Securities Centre, which is the computerised book-entry register for most Czech book-entry securities. Short-term debt securities may also be registered at the CNB registration and trading system. The Securities Centre maintains two registers, one containing a list of all securities holders, the other a list of all issuers and their outstanding securities. Transfers of securities are effected upon registration of such transfer at the Securities Centre on the basis of an instruction or order to register the transfer of the particular security. In the future, the role of the Securities Centre should be taken over by a Central Depository, when established.

Guarantee Fund

Securities dealers in the Czech Republic are required to maintain adequate insurance from the guarantee fund of securities dealers (the “**Guarantee Fund**”). Each securities dealer is required to make an annual contribution in the amount of 2 per cent. of the fees and commissions obtained from its clients on an annual basis. The annual contribution has to be at least CZK 10,000. When the Guarantee Fund upon an agreement with CNB announces that a securities dealer is unable to discharge its obligations, its clients’ deposits are insured up to 90 per cent. of the aggregate deposit, up to an amount in CZK equivalent to €20,000 per each client. Some customers, such as affiliated parties, are excluded from the compensation scheme.

Collective Investment

On 1 May 2004, a new Collective Investment Act became effective and substituted former Investment Companies Act of 1992. The Collective Investment Act was significantly amended in the spring of 2006 in order to harmonise Czech collective investment law with the requirements of the EU. The Collective Investment Act regulates collective investment and activities of investment funds and investment companies. The CNB supervises compliance with the Collective Investment Act and is empowered to impose sanctions for non-compliance, including fines and various remedial measures.

PUBLIC FINANCE

General Government Account

The public finance sector in the Czech Republic comprises the central government and local government, which together are referred to as the general government. The central government budget consists of the state budget (including the national fund and since 2006 also the former NPF operations), the extra-budgetary funds and the social security funds (which is now limited to public health insurance). The fiscal year applicable to the central government units and local governments is the calendar year.

Methodology

Unless otherwise indicated, all data in this section is presented in accordance with the methodology of the IMF (as set forth in the Manual on Government Finance Statistics, IMF 1986, hereinafter the “**GFS 86 methodology**”), which is the methodology currently used by the Government.

In order to comply with the accession obligations of the Czech Republic, the Czech Republic has implemented procedures that should enable it to produce government sector data on the basis of ESA 95 methodology. While the Government currently does not use ESA 95 methodology for its fiscal accounting, the Czech Statistical Office is responsible for compiling the government sector data on the basis of ESA 95 methodology.

The methodological changes carried out by the Czech Statistical Office (on the basis of Eurostat recommendations) to comply with ESA 95 methodology significantly affect the public finance results and budgets of the Czech Republic. Generally, ESA 95 methodology monitors revenues and expenditures on an accrual basis, whereas GFS methodology monitors revenues and expenditures on a cash basis. The biggest effect of the adopted methodological changes on the data presented on the public finance sector derives from (i) the reclassification of exercised state guarantees as government debt and increases of the deficit, and (ii) the extension of the definition of the general government sector (i.e., the inclusion of the railway infrastructure administration and other quasi-governmental institutions).

General Government Budget Overview

The following table sets forth main fiscal trends in the Czech Republic (under GFS 86 methodology, except where noted otherwise) as at and for the four years ended 31 December 2007, and the budget for 2008:

	2004	2005	2006	2007 (preliminary)	2008 (budget)
	<i>(CZK billions, except where noted otherwise)</i>				
Central government budget					
State budget surplus (deficit).....	(69.0)	(61.1)	(107.4)	(48.6)	(30.5)
Revenues including grants.....	754.3	813.0	862.5	961.8	1089.2
Expenditures and net lending.....	823.2	874.1	969.9	1010.4	1119.7
Extra-budgetary funds surplus (deficit)	(16.5)	52.7	(3.3)	(9.5)	4
Revenues.....	46.8	51.4	82.2	88.8	148.4
Expenditures and net lending.....	63.4	(1.4)	85.6	98.3	144.4
Social security funds surplus (deficit)....	0.2	0.5	2.8	17.2	8.9
Revenues.....	157.0	168.9	182.8	202.8	211.0
Expenditures and net lending.....	156.7	168.4	180.0	185.6	202.0
Local government budgets:					
Local government budgets surplus (deficit).....	(8.9)	7.8	(3.9)	9.4	2.2
Revenues.....	306.7	331.6	356.1	369.7	402.9
Expenditures and net lending.....	315.7	323.8	360.0	360.3	400.7
General government budget, after consolidation, surplus (deficit).....	(90.7)	0.6	(142.1)	(36.0)	(20.0)
Share of GDP in %.....	(3.2)	0.0	(4.4)	(1.0)	(0.5)
General government budget, after consolidation and excluding net lending, surplus (deficit).....	(97.7)	(97.8)	(138.8)	(44.0)	(38.6)
Share of GDP in %.....	(3.5)	(3.3)	(4.3)	(1.2)	(1.0)
General government surplus (deficit) under ESA 95 methodology.....	(83.3)	(106.7)	(85.9)	(56.1)	(58.3)
Share of GDP in %.....	(3.0)	(3.6)	(2.7)	(1.6)	(1.5)

Source: Ministry of Finance

In 2007, the consolidated general government budget recorded a preliminary deficit of CZK 36 billion, representing 1 per cent. of the GDP. The deficit originally projected exceeded the actual deficit by CZK 89.6 billion (when compared with the projection dated October 2007), mainly due to better than expected tax income and savings on the expenditure side (mainly subsidies and transfers). Under ESA 95 methodology, the deficit of the general government sector reached CZK 56.1 billion, representing 1.6 per cent. of GDP in 2007.

The difference between the results reported under GFS 86 methodology and ESA 95 methodology, in the amount of 0.6 per cent. of GDP, can be explained by differences in the definition of general government (for instance, CKA forms part of the general government under ESA 95 methodology, but not under GFS 86 methodology) and time differences resulting from the use of the cash-based method (GFS 86 methodology) and the accrual method (ESA 95 methodology).

2004 – 2008 State Budget

The central government contributes most to the overall budgetary deficit, since it is in charge of carrying out the financially most demanding spending programs (e.g., social benefits, major infrastructure investments) and it also absorbs the financial impact of operations linked to the transformation of the Czech economy (such as the operations of transformation institutions and state guarantees to the banking sector).

The following tables set forth, by category, the actual revenues and expenditures of the state budget (excluding the national fund and the former NPF operations) in 2004 to 2007, together with budgeted revenues and expenditures for 2008 (unlike the state budget approved by the Parliament, the following data also includes the CKA loss as expenditure in the years 2005 to 2007):

	2004	2005	2006	2007 (preliminary)	2008 (budget)
Revenues					
Tax revenues.....	717.6	770.8	801.7	899.4	963.6
Income tax.....	180.7	195.1	187.1	216.9	221.3
Social security contributions.....	294.1	312.1	334.6	368.1	395.7
Property taxes.....	10.4	8.1	8.5	10.6	10.4
Local taxes on goods and services.....	227.9	255.4	271.3	303.6	336.0
Value added tax.....	140.4	146.8	153.5	166.6	194.7
Excise tax.....	82.8	103.6	112.6	131.6	135.9
Customs duties.....	4.1	-0.1	0.0	0.0	0.0
Other tax revenue.....	0.3	0.2	0.1	0.1	0.1
Non-tax revenue.....	20.3	15.6	22.6	18.4	18.3
Sub-total (Current revenues).....	737.9	786.4	824.3	917.8	981.9
Capital revenues.....	0.9	1.0	1.5	1.2	2.3
Grants.....	15.4	25.7	36.7	42.8	105.0
Repayments.....	8.9	6.6	2.9	3.5	3.1
Domestic.....	6.9	1.4	2.1	3.2	2.4
Abroad.....	2.1	5.3	0.8	0.3	2.7
Total revenues.....	754.3	813.0	862.5	961.8	1,089.2
Expenditures					
Current expenditures.....	763.7	814.7	893.1	932.3	981.5
Expenditures on goods and services .	136.0	145.8	157.3	164.0	178.8
Interest payments.....	26.8	23.0	31.3	33.7	40.0
Subsidies and other current transfers	600.9	645.9	704.4	734.7	762.6
Transfers to central level government	44.0	55.9	72.4	78.3	91.1
Subsidies.....	88.0	104.3	107.2	87.8	88.2
– of which to non-financial public enterprises.....	36.2	40.2	46.3	47.2	50.2
Transfers to other level of government.....	111.1	102.5	110.6	120.5	124.2
Transfers to non-profit institutions and households.....	339.9	354.4	385.6	417.0	424.3
Transfers Abroad.....	18.0	28.7	28.6	31.1	34.9
Capital expenditure.....	52.1	56.3	73.5	75.7	133.0
Fixed capital assets, stocks, and land....	13.4	14.6	17.9	18.4	19.1
Capital transfers.....	38.7	41.7	55.6	57.3	114.0
Domestic.....	38.7	41.7	55.6	57.3	114.0
To other central governments.....	2.8	1.4	6.7	10.7	59.7
To other levels of government.....	16.2	10.2	18.9	18.1	16.5
To non-financial enterprises.....	19.5	30.2	30.0	28.5	36.4
– of which to non-financial public enterprises.....	13.8	24.1	20.9	17.7	25.4
Abroad.....	0.0	0.0	0.0	0.0	0.0
Total expenditure.....	815.8	871.0	966.6	1,008.0	1,114.5
Lending.....	16.4	9.7	6.2	5.8	8.3
Domestic.....	16.0	9.4	5.9	5.8	8.3
Abroad.....	0.3	0.3	0.0	0.0	0.0
Total expenditure including lending.....	832.2	880.7	972.8	1,013.9	1,122.8
Surplus (deficit).....	(69.0)	(61.1)	(107.4)	(48.6)	(30.5)
as a % of GDP.....	(2.5)	(2.0)	(3.3)	(1.4)	(0.8)
Surplus (deficit) excluding net lending .	(61.5)	(58.0)	(104.1)	(46.2)	25.3
as a % of GDP.....	(2.2)	(1.9)	(3.2)	(1.3)	(0.7)

Source: Ministry of Finance

State Budget 2008

The 2008 state budget (on cash basis) was approved by Parliament in December 2007 and came into effect on 1 January 2008. The revenues for 2008 (as approved by Parliament) were budgeted at CZK 1,036.5 billion and expenditures at CZK 1,107.3 billion, 52.5 per cent. of which represent mandatory expenditures (e.g. payments into the pension system, social security contributions, etc.). The mandatory expenditures increased by CZK 11.6 billion compared to 2007. The mandatory expenditures, when expressed as a lump sum, increased by CZK 11.6 billion. When expressed as a percentage of GDP, however, the mandatory expenditures decreased year-on-year by 2.2 per cent., mainly due to the GDP increase and the reforms carried out by the Government in 2007.

For the three months ended March 2008, revenues amounted to CZK 270.1 billion (representing 26.1 per cent. of the total budgeted revenues for 2008) and expenditures stood at CZK 283.5 billion (representing 25.6 per cent. of the total budgeted expenditures for 2008), resulting in a deficit of CZK 13.4 billion (compared to a CZK 11.3 billion surplus recorded for the same period in 2007).

The results for the three months ended March 2008 were notably influenced by collection of VAT and excise taxes, which reached 21.4 per cent. of the total budgeted collection of these taxes for 2008 (failing to reach the 3-month pro rata amount of the total budgeted collection of these taxes for 2008 by CZK 11.6 billion).

Relations with EU Budget

Starting from May 2004, the Czech Republic, as a member state of the EU, has been obliged to make annual payments to the EU budget on a basis comparable to that of other EU member states. It is expected that approximately CZK 30.2 billion (approximately €1.28 billion) will be paid by the Czech Republic into the EU budget in 2008. So far, approximately €3.74 billion was paid for the period ending 31 December 2007. Payments by the Czech Republic were partly offset by budget compensation payments from the EU to the Czech Republic in the aggregate amount of €834 million over the first three years of its EU membership. These payments stopped in 2006.

In addition to budget compensation payments, the Czech Republic is eligible to receive payments from structural and cohesion funds and agricultural funds. The actual amount of payments obtained from these sources, however, depends on the Czech Republic having a sufficient number of viable projects, complying with the Convergence Programme and securing sufficient funds from the state budget to cover co-payments (with the exception of direct payments for agriculture). So far, approximately €4.91 billion has already been obtained from EU funds for the period since the Czech Republic's accession to the EU until 31 December 2007.

Sustainability of Public Finance and Public Finance Reform

National authorities and international organisations have produced demographic projections that forecast a rapid increase in the proportion of elderly people in the Czech Republic over the coming decades. Although the Czech Republic currently belongs among those countries having relatively young population in the context of current European demographics, due to very dynamic changes in its structure the Czech population will be among the oldest in Europe within the next 50 years.

The rising proportion of mandatory expenditure in the total budget expenditure related to the ageing population is a risk to future development. Social requirements, including health insurance, are affected to a large extent by demographic changes. In particular, maintaining the present pension system is a fiscal burden. As a result, it has become increasingly necessary to implement pension and health insurance reforms in order to ensure long term fiscal sustainability, without incurring additional fiscal costs.

Unfavourable trends outlined by these demographic projections led the Government to initiate discussions across the parliamentary spectrum on thorough pension reform. Preparations for the pension system reform were launched in 2004 with the creation of an independent expert team, which carefully analysed the current state of the system and assessed the fiscal impact of the reform scenarios proposed by the main political parties. Nevertheless, the subsequent political negotiations were interrupted by the elections in June 2006, which resulted in the stalemate between the left and centre/right-wing blocs in the Parliament. Despite the difficult post-election political situation, negotiations on the basic parametric changes continued and, in April 2007, the new Government introduced a plan for public finances reform, including fiscal and pension system reform.

The first stage of the reforms was adopted and became effective as of 1 January 2008, with the second and third stage to follow during the years 2008 and 2009. The main pillar of these reforms consists in the reform of pension insurance, introducing new means of financing the basic and private pension insurance through newly established reserve pension fund and a possibility to partially opt-out from the basic pension system.

Similarly to the pension system, the Czech health care system also threatens the long-term sustainability of Czech public finances. At the beginning of 2008, a partial reform was implemented, the main characteristics thereof being the introduction of new regulatory payments for visiting a doctor. The second stage of the healthcare reform is currently in preparation and should include the privatisation of health insurance companies.

The tax system is another aspect of public finance that the Government plans to transform within the remaining years of their term of office. The tax reform, similarly to the pension reform, consists of complex measures, including more stringent conditions for securities trading, different rules for tax write-offs of interest costs, tax-free parent company income stemming from sale of shares in subsidiaries (applicable only if certain conditions are met), decrease of individual income taxes, unification of a withholding tax and an option for related persons to register themselves as a group for tax purposes.

GENERAL GOVERNMENT DEBT

General Government Debt

General government debt has steadily grown for the past few years, reaching CZK 973.2 billion at the end of 2007, representing 27.4 per cent. of GDP (an increase of 0.3 per cent. of GDP against 2006). The increase in the level of general government debt in 2007 (both in absolute numbers and as a share of GDP) is largely attributable to the increase of consolidated state debt, which account for approximately 24.8 per cent. of GDP.

Under ESA 95 methodology, however, general government debt reached 28.7 per cent. of GDP in 2007. As the highest deficit is run up by central government, its debt accounts for the largest portion (91.4 per cent. under ESA 95 methodology) of total debt. The rest is made up almost exclusively by the debt of local governments.

The following table sets forth the composition of general government debt as at and for the five years ended 31 December 2007:

	As at and for the year ended 31 December				
	2003	2004	2005	2006	2007
	<i>(CZK billions, except otherwise noted)</i>				
State debt (consolidated)	488.8	585.8	684.2	794.1	882.3
as of GDP	19.0	20.8	22.9	24.6	24.8
Internal portion	97.3%	88.0%	84.0%	84.7%	85.4%
External portion	2.7%	12.0%	16.0%	15.3%	17.2%
Extra budgetary funds debt	2.2	1.2	2.4	0.7	3.8
Social security funds debt	0.3	0.2	0.2	0.2	0.0
Local authorities debt	71.6	77.8	82.2	88.9	90.8
General government debt, consolidated	553.0	659.4	762.1	877.7	973.2
as % of GDP	21.5	23.4	25.5	27.2	27.4
General government debt under					
ESA 95	775.0	855.1	888.6	951.5	1,019.4
as % of GDP	30.1	30.4	29.7	29.4	28.7

Source: Ministry of Finance

State Debt Service, Schedule of Payments and Debt Management Strategy

The following table illustrates the historical expenses related to State debt during the four years ended 31 December 2007 and estimated expenses for the year ended 31 December 2008:

	As at and for the year ended 31 December				
	2004	2005	2006	2007	Budget 2008
	<i>(CZK millions)</i>				
Principal repayments	39,046	22,045	60,961	59,912	94,468
Interest payments	26,765	25,335	31,515	33,981	43,681
Fees	69	96	94	145	300
Realised exchange rate loss	0	0	0	0	0
Total State debt service	65,880	47,476	92,570	94,038	138,449
Debt service (excl. principal repayments) as % of State budget expenses	3.1	2.8	3.1	3.1	4.0

Source: Ministry of Finance

Note: Planned budgetary interest payments in 2008 are presented on the net basis and include planned budgetary revenues in the amount of CZK 1,460 millions due to methodological changes carried out during the state budget process and accounting.

The following table sets forth the schedule of repayments on treasury bonds (which do not include treasury bills, repo and depo operations on money market) and internal and external loans (including loans from the European Investment Bank (the “EIB”)) as at 30 April 2008 for the periods indicated (which data do not take into account any borrowings or bond issues anticipated after 30 April 2008):

	Total principal repayment	Internal principal repayment	External principal repayment
	(CZK millions)		
2008.....	84,449	79,976	4,473
2009.....	97,643	96,877	766
2010.....	83,980	82,976	1,004
2011.....	66,850	65,813	1,037
2012.....	43,061	41,024	2,037
2013.....	66,001	64,964	1,037
2014.....	49,862	0	49,862
2015.....	64,376	62,339	2,037
2016.....	36,994	35,000	1,994
2017 and thereafter	271,241	211,869	59,372

Source: Ministry of Finance

Note: The amounts set forth in the table do not include any repayment in respect of the bills of exchange issued by the Czech Republic to the World Bank and EBRD as payment for its membership in these institutions. Data for 2008 include repayments between 1 January and 30 April 2008.

State debt is almost exclusively denominated in CZK. The part of the state debt that is denominated in EUR is hedged using derivatives, hence the exposure to currency risk is very low. Even at the end of 2007, state debt was not exposed to any relevant risks arising from exchange rate fluctuations (less than 1 per cent. of state debt is exposed to currency risk).

Both refinancing and interest rate risks are currently in the focus of debt portfolio management process and of government financing. In connection with the stabilisation of refinancing risks, the key indicator, which the Ministry of Finance has been targeting since the beginning of 2004 is the portion of short-term state debt. In the first half of 2004, the Ministry of Finance announced the following gradual three year trajectory for the reduction of this indicator: 2004 – 25.0 to 30.0 per cent., 2005 – 22.5 to 27.5 per cent., 2006 – 20.0 to 25.0 per cent. By the end of the year 2004, the value of 25.0 per cent. was achieved and redefinition of targets was approved. The new targets were set to 24.0 per cent. or less for the year 2005 and 20.0 per cent. or less for the year 2006.

The target of 24.0 per cent. or less was achieved in 2005 when the indicator value reached 22.1 per cent. During the first quarter of 2006 the planned limit was reached. By the end of year 2006 and 2007, this indicator reached values of 17.1 and 18.7 per cent. respectively. In the first quarter of 2008, the short-term state debt reached the share of 16.5 per cent., well within the 20 per cent. limit.

Another indicator used in refinancing risk management is the average time to maturity of the state debt. For the first time, the Ministry of Finance announced a specific target for 2005 at the level of 5.5 to 6.5 years which was satisfied and the average maturity reached 5.8 years. This target range was shifted upwards by 0.5 years for 2006 to 2008, to 6.0 to 7.0 years. In the first quarter of 2008, average time to maturity reached the level of 6.7 years, i.e. within the announced target band 6.0 to 7.0 years set for 2008.

Interest rate risk remains the most important market risk in the management of the state debt. A change in the area of announcing the strategic targets for this sphere of state debt management took place at the beginning of 2006. The new explicit target became the interest rate re-fixing for the 12 month debt portfolio, which is not sensitive to the interest rate fluctuations on the financial market. The medium-term target band of 30 to 40 per cent. was determined for 2006, which was not achieved, mainly due to the decision by the Minister of Finance not to issue a benchmark Eurobond. This target is based on macroeconomic and financial simulation model framework and is aimed at medium-term horizon from the cost-risk trade-off point of view; the Ministry of Finance left the target in range of 30 to 40 per cent., those values being valid also for the years 2007 and 2008. In the first quarter of 2008, this indicator reached the value of 24.2 per cent. (including derivative operations).

Since 2002, the Czech Republic has also been using derivatives as part of its debt management strategy. Individual transactions are executed by debt and financial assets management department of the Ministry of Finance on the basis of ISDA framework agreements entered into with various counterparties.

Government Guarantees

Until 2001, the Czech Republic extended State guarantees each year in support of Czech private-sector or public-sector enterprises. Since 2001, a state guarantee may be extended only pursuant to a specific law passed by Parliament. The annual level of state guarantees is currently not limited, but by law the aggregate value of state guarantees granted may not exceed 40 per cent. of the projected budgetary expenses in a given year, and any further state guarantee may be granted only after a decrease in the volume of the guarantees under this limit. As a result, the number of guarantees granted since 2001 decreased significantly.

As at 31 December 2007, the aggregate amount of liabilities covered by outstanding state guarantees (other than guarantees set forth in special laws) was approximately CZK 209.9 billion. These guarantees comprised of:

- (i) guarantees relating to infrastructure projects (such as the construction of railway corridors, the Prague airport terminal and highways). As at 31 December 2007, the aggregate outstanding amount of these guarantees was approximately CZK 42 billion;
- (ii) guarantees relating to the consolidation of the Czech banking system (such as guarantees issued in relation to the restructuring of IPB). As at 31 December 2007, the aggregate outstanding amount of these guarantees was approximately CZK 157 billion; and
- (iii) guarantees issued in respect of various other projects (such as the construction of a congress centre, water utilisation programme, and removal of damage caused by floods). As at 31 December 2007, the aggregate outstanding amount of these guarantees was approximately CZK 10.9 billion.

Although, under national methodology, high-risk state guarantees were treated as contingent until an actual payment, ESA 95 methodology requires that high-risk state guarantees be imputed to government debt in the year in which the guarantee is exercised for the first time, even if the payment is requested in respect of the interest or only a portion of the guaranteed amount. Such re-classification of outstanding guarantees increases the government deficit and debt reported under ESA 95 in the relevant year.

Under the ESA 95 methodology, the whole amount of a state guarantee must be included in the state budget as a capital transfer, if and when the guarantee is exercised for the first time (irrespective of whether the payment is required in respect of the whole amount of the guarantee, any part of the guarantee or interest only). Of the total amount of contingent liability represented by these guarantees and indemnities, nothing was reflected in the consolidated general government debt and deficits under the national fiscal accounting methodology as at 31 December 2007; by contrast, CZK 132,085.6 million was reflected under the ESA 95 methodology.

Of the above-mentioned guarantees the guarantees presented to the Czech Republic for payment include mainly the guarantee granted by the Ministry of Finance to the CNB related to the IPB case. Pursuant to a Government resolution, the Ministry of Finance issued a counter-indemnity to the CNB in respect of CNB's indemnity provided to CSOB against losses which CSOB could incur in connection with its purchase of the ailing Czech bank, IPB. The State's liability is limited, both in terms of the maximum amount (CZK 160 billion) and in terms of duration (the guarantee expires in 2016).

Due to accounting methodology differences and the miscellaneous nature of different kinds of liabilities and based on discussions with Eurostat, the liabilities in relation to IPB are not reflected in the debt figures throughout this Offering Circular.

In addition to the ad hoc state guarantees mentioned above, the liabilities of certain quasi-governmental institutions are guaranteed by the Czech Republic as a whole, based on specific provisions of law under which the institutions were established. These institutions include, most importantly, the Export Guarantee and Insurance Company, the Czech Export Bank and the Railways Infrastructure Administration.

Implicit indirect government liabilities derived from the accumulated volume of non-performing assets held by and transferred from the transformation institutions and indirect government liabilities stemming from state guarantees that have been issued currently represent one of the largest medium-term fiscal risks of the state.

Further, the state has rendered guarantees in relation to revitalisation and the elimination of environmental damage in several regions of the Czech Republic. The total outstanding amount of these guarantees is approximately CZK 32 billion. Due to accounting methodology differences and due to

the miscellaneous nature of different kinds of liabilities, the liabilities in relation to these guarantees are not reflected in the debt figures throughout this Offering Circular.

Gross External Debt

The following table sets out the external debt of Czech institutions, including the Government, from 2003 to 2007:

	2003	2004	2005	2006	2007
	<i>(EUR millions)</i>				
Government	2,152.1	4,958.6	7,657.5	8,980.5	10,244.7
<i>Short-term</i>	21.9	109.5	38.0	12.7	215
Money market Notes	21.9	109.5	38.0	12.7	215
Loans	–	–	–	–	–
Trade credits	–	–	–	–	–
Other debt liabilities	–	–	–	–	–
Long-term	2,130.2	4,849.1	7,619.5	8,967.8	10,029.8
Bonds and notes	1,437.2	3,796.6	5,815.6	6,740.6	7,618.1
Loans	693.0	1,052.5	1,471.7	1,879.7	2,085.3
Trade credits	–	–	332.2	347.5	326.3
Other debt liabilities	–	–	–	–	–
Monetary authorities (CNB)	3.7	30.7	205.9	66.7	46.4
<i>Short-term</i>	0.7	28.4	204.3	64.7	46.1
Money market Notes	–	–	–	–	–
Loans	–	–	–	–	–
Currency and deposit	0.7	28.4	204.3	64.7	46.1
Other debt liabilities	–	–	–	–	–
Long-term	3.0	2.3	1.6	1.0	0.3
Bonds and notes	–	–	–	–	–
Loans	3.0	2.3	1.6	1.0	0.3
Currency and deposit	–	–	–	–	–
Other debt liabilities	–	–	–	–	–
Banks	8,742.3	8,299.4	9,241.0	9,931.8	14,372.1
<i>Short-term</i>	6,481.0	6,187.3	6,985.6	7,152.2	10,320.5
Money market Notes	45.8	113.9	44.9	98.7	75.2
Loans	160.3	348.0	533.1	751.3	1,216.9
Currency and deposits	6,017.8	5,399.6	5,972.4	5,830.6	8,557.3
Other debt liabilities	257.1	325.8	435.2	471.6	471.2
Long-term	2,261.3	2,112.1	2,255.4	2,779.6	4,051.6
Bonds and notes	469.7	404.6	475.0	515.1	766.5
Loans	1,521.8	1,453.8	1,435.9	1,854.4	2,451.6
Currency and deposits	256.7	240.3	328.3	395.2	815.9
Other debt liabilities	13.1	13.4	16.2	14.9	17.6
Other sectors	12,022.7	14,712.4	16,224.9	18,616.9	19,933.3
<i>Short-term</i>	2,810.7	4,051.6	4,325.7	5,189.1	5,106.4
Money market Notes	–	61.4	32.6	–	79.8
Loans	1,321.7	1,683.9	1,579.8	1,814.3	1,861.8
Currency and deposits	–	–	–	–	–
Trade credits	1,489.0	2,306.3	2,713.3	3,374.8	3,164.9
Other debt liabilities	–	–	–	–	–
Long-term	9,212.0	10,660.8	11,899.2	13,427.8	14,826.9
Bonds and notes	581.5	1,164.6	1,086.0	1,594.5	2,283.1
Loans	7,885.2	8,878.7	9,935.5	10,931.4	11,673.6
Currency and deposits	–	–	–	–	–
Trade credits	438.5	423.5	643.4	654.7	608.6
Other debt liabilities	306.8	194.0	234.3	247.2	261.7
Direct investment:					
Intercompany lending	4,702.7	5,211.0	6,049.4	6,667.7	6,072.9
Debt liabilities to affiliated enterprises	–	–	–	–	–
Debt liabilities to direct investors	4,702.7	5,211.0	6,049.4	6,667.7	6,072.9
Gross External debt	27,623.5	33,212.1	39,378.7	44,262.6	50,669.4

Source: Ministry of Finance, CNB

The following table sets forth the composition of the external debt by type of creditors in accordance with the CNB methodology as at 31 December in each of the years 2003 through 2007:

	2003	2004	2005	2006	2007
	<i>(EUR millions)</i>				
DEBT IN CONVERTIBLE CURRENCIES	27,623.5	33,212.1	39,378.7	44,262.6	50,669.4
<i>of which:</i>					
Long-term	16,540.5	21,904.7	27,013.7	30,727.2	34,814.3
<i>by debtor:</i>					
CNB	3.0	2.3	1.6	1.0	0.3
Commercial banks	2,261.3	2,112.1	2,255.4	2,779.6	4,051.6
Government	2,130.2	4,849.1	7,619.5	8,967.8	10,029.8
Other sectors	12,146.0	14,941.2	17,137.2	18,978.8	20,732.6
<i>by creditor:</i>					
Foreign banks	7,762.2	8,832.5	9,536.1	11,087.7	13,103.0
Government	–	–	332.2	347.5	326.3
Multilateral institutions	2,585.4	2,785.5	3,626.5	3,968.2	3,727.3
Suppliers and direct investors	3,372.6	4,703.8	5,881.3	6,205.7	6,514.3
Other investors	2,820.3	5,582.9	7,637.6	9,118.1	11,143.5
Short-term	11,083.0	11,307.4	12,365.0	13,535.4	15,855.1
<i>by debtor:</i>					
CNB	0.7	28.4	204.3	64.7	46.1
Commercial banks	6,481.0	6,187.3	6,985.6	7,152.2	10,320.5
Government	21.9	109.5	38.0	12.7	215.0
Other sectors	4,579.4	4,982.2	5,137.1	6,305.8	5,273.6
<i>by creditor:</i>					
Foreign banks	6,740.8	6,642.8	6,820.2	7,007.4	9,048.3
Multilateral institutions	–	28.3	204.0	64.3	45.8
Suppliers and direct investors	3,257.7	3,236.8	3,524.8	4,491.5	3,332.1
Other investors	1,084.5	1,399.45	1,816.0	1,972.2	3,428.9
DEBT IN NON-CONVERTIBLE CURRENCIES	0.0	0.0	0.0	0.0	0.0
<i>of which:</i>					
Long-term	–	–	–	–	–
Short-term	–	–	–	–	–
TOTAL EXTERNAL DEBT	27,623	33,212.1	39,378.7	44,262.6	50,669.4
<i>of which:</i>					
Long-term	16,540.5	21,904.7	27,013.7	30,727.2	34,814.3
Short-term	11,083.0	11,307.4	12,365.0	13,535.4	18,855.1
Total external long-term debt	16,540.5	21,904.7	27,013.7	30,727.2	34,814.3
use of IMF credits					
public and publicly guaranteed debt	6,854.5	8,934.9	11,118.7	11,817.0	14,094.3
private non-guaranteed debt	9,686.0	12,969.8	15,895.0	18,910.2	20,720.0

Source: CNB

Relationship with Multilateral Financial Institutions

The Czech Republic has received several loans from the EIB to help finance infrastructure projects, flood-related measures and other projects. Currently, there are 12 loan agreements in place between the Czech Republic and the EIB with an aggregate principal amount of €2,532 million. As at 30 April 2008, the total outstanding principal amount of loans received by the Czech Republic under these loan agreements reached CZK 35.9 billion (approximately €1,439.2 million).

Furthermore, the Czech Republic has issued bills of exchange to the World Bank and the EBRD as payment for its membership in these institutions. As at 31 December 2007, the aggregate principal amount of these securities was CZK 0.55 billion.

Other than as mentioned above, the Czech Republic does not currently obtain financing from multilateral financial institutions.

CZECH LEGAL MATTERS

Enforcement of judgments in the Czech Republic

The Terms and Conditions of the Notes provide, *inter alia*, that the courts of England shall have jurisdiction to hear and determine any suit, action, proceeding or dispute, or to settle any disputes, which arise out of or in connection with the Programme and/or the Notes issued thereunder. The Issuer has appointed The Consul Department of the Embassy of the Czech Republic at 26 Kensington Palace Gardens, London W8 4QY, as agent for the service of process in England.

In connection with the Czech Republic's entry into the European Union, EC Regulation No. 44/2001 of 22 December 2000 on jurisdiction, recognition and enforcement of court judgments in civil and commercial matters (the "**EC Regulation No. 44/2001**") has become directly applicable in the Czech Republic. Based on this regulation, court rulings issued by court authorities in the EU member countries, including the United Kingdom, with regard to civil and commercial matters are now enforceable in the Czech Republic, subject to the rules of the EC Regulation 44/2001 and, *vice versa*, court rulings issued by court authorities in the Czech Republic with regard to civil and commercial matters are now enforceable in EU member countries, including the United Kingdom.

Under Czech law, parties to a contract may, provided that at least one party is a foreign entity, select the law which will govern their contractual relations, and Czech courts will give effect to such choice of law. Foreign entities are able to bring civil proceedings in the Czech courts against a Czech citizen or a Czech legal entity. Czech judicial procedures will apply and a judgment of the Czech court will be enforceable in the Czech Republic, subject to certain statutory limitations on the ability of judgment creditors to execute on a judgment by protecting certain assets from forced sale.

Any person bringing an action in the Czech Republic would be required to (i) submit to the court in the Czech Republic a translation in the Czech language of any relevant document prepared by a sworn translator authorised by such court and (ii) pay a court filing fee.

TAXATION

The following is a general description of the material Czech tax considerations relating to the acquisition, ownership, disposition and retirement of the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in the relevant countries or elsewhere. This summary does not take into account or discuss the tax laws of any country other than the Czech Republic nor does it take into account specific double taxation treaties, the individual circumstances, financial situation or investment objectives of an investor in the Notes. This summary is based upon tax laws of the Czech Republic as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries.

Interest

Provided that the Notes qualify as bonds issued outside of the Czech Republic, the interest income from the Notes realised by an individual who is not for tax purposes treated as a resident of the Czech Republic or a person other than an individual which is not for tax purposes treated as a resident of the Czech Republic (together, “**Non-Czech Holders**”) will be exempt from taxation in the Czech Republic and no withholding of Czech tax will be required on any such payments.

Interest income from the Notes realised by an individual who is for tax purposes treated as a resident of the Czech Republic or a person other than an individual which is for tax purposes treated as a resident of the Czech Republic or an organisational unit of the Czech state (together, “**Czech Holders**”) is not subject to any Czech withholding tax. However, such income should be declared by the Czech Holders in their annual tax returns and ordinary Czech corporate (21 per cent. in 2008, 20 per cent. in 2009 and 19 per cent. in 2010) or personal (flat rate 15 per cent. in 2007, 12.5 per cent. in 2008) income tax, as applicable, must be paid.

Capital Gains

Income realised by a Non-Czech Holder, not holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes to another Non-Czech Holder, not acquiring the Notes through a permanent establishment in the Czech Republic, will not be subject to any Czech income tax.

Income realised by Non-Czech Holders, not holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes (a) to a Czech Holder or (b) to a Czech permanent establishment of another Non-Czech Holder will be subject to taxation in the Czech Republic unless the Non-Czech Holder realising the income is resident in a country within the meaning of a double taxation treaty between that country and the Czech Republic, pursuant to the terms of which the Czech Republic may not impose any income or capital gains tax on income or capital gains realised by the Non-Czech Holder from the sale of the Notes.

If income realised by a Non-Czech Holder, not holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes is subject to taxation in the Czech Republic (as discussed in the foregoing paragraph), the Czech Holder or a permanent establishment in the Czech Republic of a Non-Czech Holder paying the income will be obliged to withhold an amount of 1 per cent. on a gross basis representing tax security, unless the Non-Czech Holder is for tax purposes a resident of a country being a member of the European Union or the European Economic Area. This tax security could be, subsequently, credited against the final Czech tax liability of the Non-Czech Holder.

Income realised by Czech Holders from the sale of the Notes is generally subject to Czech corporate or personal income tax at the above mentioned rates. Income realised by a Czech Holder, who is an individual, from the sale of the Notes is exempt from Czech personal income tax provided that the Notes were not included in the business property of such individual and holding period of the Notes exceeded six months. Except for cases when income from the Notes is exempt (see above), losses upon a sale of the Notes will generally be tax deductible, assuming the general tax deductibility rules are preserved. The losses incurred by an individual Czech Holder who does not hold the Notes as a part of his business property can only be set off against similar type of income in the same tax period.

Czech Holders that are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions may be required to revalue the Notes to fair value for accounting

purposes, whereby the revaluation would be accounted for as revenue or expense. Such revenue is generally taxable and the corresponding expense is generally tax deductible for Czech tax purposes.

Other Taxes

No Czech stamp duty, registration, transfer or similar taxes will be payable in connection with the acquisition, ownership, sale or disposal of the Notes by Czech Holders or Non-Czech Holders.

EU Savings Directive

Under Directive 2003/48/EC (the “**Savings Directive**”), Member States are required to provide to the tax authorities of another Member State details of payments of interest (as defined in the Savings Directive) made by a paying agent (as defined in the Savings Directive) within its jurisdiction to an individual resident in that other Member State. During a transitional period, Austria, Belgium and Luxembourg are allowed to apply a withholding tax on interest payments instead of providing details of payments of interest to the tax authorities of other Member States. The rate of withholding tax is 15 per cent. during the first three years of the transitional period, 20 per cent. during the subsequent three years, and 35 per cent. until the end of the transitional period.

A number of third countries and dependent or associated territories have adopted similar measures with effect from 1 July 2005.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in the dealer agreement dated 23 May 2008 (the “**Dealer Agreement**”) between the Issuer and the Dealers (as defined below), the Notes may be offered from time to time by the Issuer to any one or more of Barclays Bank PLC and Deutsche Bank AG, London Branch (the “**Dealers**”) or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer.

The Issuer has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer. The Dealer Agreement also makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

Selling Restrictions

United States of America

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and thus may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (other than distributors) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available.

Each Dealer has agreed that it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after completion of the distribution compliance period, within the United States or to, or for the account of or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes within the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Dealer has represented, warranted and agreed that:

- (a) *No deposit-taking*: in relation to any Notes having a maturity of less than one year:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
 - (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:
 - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
 - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) *Financial promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue

or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

- (c) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Czech Republic

No approval or permit has been sought or obtained from the Czech National Bank in accordance with Act No. 256/2004 Col., as amended (the “**Capital Markets Act**”), Act No. 190/2004 Coll., as amended (the “**Bonds Act**”), or otherwise in respect of the Notes, the Offering Circular or the promotion thereof (except for notifying the Czech National Bank under the Bonds Act). No application has been filed nor has any permission been obtained nor has any other arrangement been made for accepting the Notes for trading on any regulated market in the Czech Republic. Pursuant to Section 34(3)(a)1. of the Capital Markets Act, the offering of securities issued by the Czech Republic (such as the Notes) does not constitute a public offering in the Czech Republic and is therefore exempt from the Czech regulation of public offering of securities.

General

Other than with respect to the admission to listing, trading and/or quotation by such one or more listing authorities, stock exchanges and/or quotation systems as may be specified in the Final Terms, no action has been or will be taken in any country or jurisdiction by the Issuer or the Dealers that would permit a public offering of any of the Notes, or possession or distribution of the Offering Circular, any Final Terms, or any other offering material in relation thereto, in any country or jurisdiction where action for that purpose is required.

Persons into whose hands this Offering Circular or any Final Terms come are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver any of the Notes or have in their possession or distribute such offering material, in all cases at their own expense.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge) comply with all applicable securities laws and regulations in force in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular, any Final Terms or any other offering materials.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction set out above to the extent that such restrictions shall, as a result of change(s) or change(s) in applicable laws and regulations, or in official interpretation thereof, after the date of the Dealer Agreement, no longer be applicable but without prejudice to the obligations of the Dealers described in this paragraph headed “*General*”.

These selling restrictions may be supplemented or modified by an agreement between the Issuer and the Dealers. Any such supplement or modification will be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or (in any other case) in a supplement to this Offering Circular.

GENERAL INFORMATION

1. Application may be made to list Notes issued under the Programme on the Luxembourg Stock Exchange on an issue by issue basis from the date hereof. Notes may also be issued pursuant to the Programme which will not be listed on the Luxembourg Stock Exchange or any other stock exchange or which will be listed on such stock exchange as the Issuer and the relevant Dealer(s) may agree.
2. The issuance of Notes under the Programme is authorised pursuant to the Bonds Act, Act No. 360/2007 Coll., on State Budget of the Czech Republic for 2008, specific Act No. 623/2006 Coll., specific Act No. 175/2007 and any other acts with equivalent content adopted for that purpose by the Czech Republic in the future. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.
3. There are no legal, arbitration or administrative proceedings against or affecting the Issuer (and no such proceedings are pending or threatened) which have or may have, individually or in the aggregate, a significant effect on the financial position of the Issuer.
4. For so long as the Programme remains in effect or any Note shall be outstanding, copies and, where appropriate, English translations of the following documents may be inspected during normal business hours at the specified office of the Fiscal Agent and the Paying Agent in London and the Registrar in Germany:
 - (a) the Bonds Act, Act No. 360/2007 Coll., on State Budget of the Czech Republic for 2008 (relevant provisions), specific Act No. 623/2006 Coll. and specific Act No. 175/2007 Coll.;
 - (b) the Fiscal Agency Agreement;
 - (c) the Deed of Covenant; and
 - (d) the Dealer Agreement,and copies and, where appropriate, English translation of the following documents may be obtained during normal business hours at the specified office of the Fiscal Agent and the Paying Agent in London:
 - (e) this Offering Circular (and any supplements thereto); and
 - (f) any Final Terms relating to Notes which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system. In the case of any Notes which are not admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the relevant Final Terms will only be available for inspection by a Holder of the relevant Notes upon production of evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity.
5. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Series will be specified in the Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.
6. Bearer Notes (other than Temporary Global Notes) and any Coupon appertaining thereto will bear a legend substantially to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code." The sections of the Code referred to in such legend provide that a United States person who holds a Bearer Note or Coupon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bearer Note or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.
7. Pursuant to Section 3(3) of the Czech Bonds Act, the issuance of each Series and/or Tranche of the Notes must be notified to the Czech National Bank no later than on the date of issue of the relevant Notes setting out the place of issue and the amount of the relevant Series or Tranche and the form, yield and maturity of the relevant Notes.

THE ISSUER

The Czech Republic acting through the Ministry of Finance

Letenská 15
11810 Prague 1
Czech Republic

ARRANGERS

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

DEALERS

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

FISCAL AGENT

Citibank, N.A.
21st Floor, Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

REGISTRAR

**Citigroup Global Markets
Deutschland AG & Co. KGaA**
Reuterweg 16
60323 Frankfurt am Main
Germany

PAYING AGENT AND TRANSFER AGENT

Citibank, N.A.
21st Floor, Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

LUXEMBOURG LISTING AGENT

Dexia Banque Internationale à Luxembourg, société anonyme

69, route d'Esch
L-2953 Luxembourg
Grand Duchy of Luxembourg

LEGAL ADVISERS

*To the Arrangers and the Dealers
as to Czech law*

White & Case
advokátní kancelář
Na Příkopě 8
110 00 Prague 1
Czech Republic

*To the Arrangers and the Dealers
as to English law*

White & Case LLP
5 Old Broad Street
London EC2N 1DW
United Kingdom

