



SAZKA, a.s.

(as Issuer)

(a Czech joint-stock company)

and

OBČANSKÉ SDRUŽENÍ ZELENÝ OSTROV

(as Co-obligor)

(a Czech civic association)

€215,000,000 9.00 per cent. Secured Amortising Bonds due 2021

OFFER PRICE: 99.402 PER CENT.

The issue price of the €215,000,000 9.00 per cent. Secured Amortising Bonds due 2021 (the “**Bonds**”) of SAZKA, a.s. (the “**Issuer**” or “**SAZKA**”) and Občanské sdružení ZELENÝ OSTROV (the “**Co-obligor**” or “**OSZO**”) is 99.402 per cent. of their principal amount.

Unless previously redeemed or cancelled, the principal on the Bonds will be amortised and paid semi-annually on 12 January and 12 July, commencing on 12 January 2007. The Bonds are subject to redemption in whole at their principal amount at the option of the Issuer in the event of certain changes affecting taxation in the Czech Republic. See the section entitled “*Terms and Conditions of the Bonds — Condition 6 — Redemption and Purchase*”.

The Bonds will bear interest from 12 July 2006 at the rate of 9.00 per cent. per annum of their outstanding principal amount payable semi-annually in arrear on 12 January and 12 July, in each year commencing on 12 January 2007. Payments on the Bonds will be made in Euros without deduction for or on account of taxes imposed or levied by the Czech Republic to the extent described under the section entitled “*Terms and Conditions of the Bonds — Condition 8 — Taxation*”. The Issuer and the Co-obligor have each covenanted to procure that the Issuer’s obligations under the Bonds will be secured by way of first ranking mortgage over certain real property as more fully described under “*Description of Underlying Transactions — The Bond Security*”.

Application has been made to list the Bonds on the Luxembourg Stock Exchange and admit the Bonds for trading on the regulated market of the Luxembourg Stock Exchange (the “**Market**”). Reference in this Prospectus to the Bonds being “listed” (and all related references) shall mean that such Bonds have been listed and admitted to trading on the Market. The Market is a regulated market for the purposes of the Investment Services Directive 93/22/EC. The Bonds will be rated by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. (“**Standard & Poor’s**”) and/or another internationally recognised rating agency. A rating is not a recommendation to buy or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

See the section entitled “Risk Factors” beginning on page 27 for a description of certain factors that should be considered in connection with an investment in the Bonds. This Prospectus does not describe all of the risks of an investment in the Bonds.

The Bonds have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”), and are subject to United States tax law requirements. The Bonds are being offered outside the United States by the Lead Manager (as defined in the section entitled “*Plan of Distribution*”) in accordance with Regulation S under the Securities Act (“**Regulation S**”), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction subject to, the registration requirements of the Securities Act.

The Bonds will be in the form of a global bond (the “**Global Bond**”), without interest coupons, which is expected to be deposited on or around 12 July 2006 (the “**Issue Date**”) with a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, *société anonyme*, Luxembourg (“**Clearstream, Luxembourg**”). The Global Bond will be exchangeable in certain limited circumstances in whole, but not in part, for Bonds in definitive bearer form in the denomination of €50,000 each and with interest coupons and receipts attached. See the section entitled “*Overview of Provisions Relating to the Bonds in Global Form*”.

Lead Manager

Credit Suisse

The date of this Prospectus is 7 July 2006

Each of the Issuer and the Co-obligor accepts responsibility for the information contained in this Prospectus. To the best of the knowledge (having taken all reasonable care to ensure that such is the case) of each of the Issuer and the Co-obligor, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

None of the Issuer, the Co-obligor or the Lead Manager have authorised the making or provision of any representations or information regarding the Issuer, the Co-obligor or the Bonds other than as contained in this Prospectus or as approved for such purpose by the Issuer or the Co-obligor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Co-obligor or the Lead Manager.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Bond shall in any circumstances create any implication that there has been no change, or any event reasonably likely to involve any change, in the condition (financial or otherwise) of the Issuer or the Co-obligor since the date of this Prospectus.

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by either the Issuer, the Co-obligor or the Lead Manager. The Lead Manager does not make any representation or warranty, express or implied, as to the accuracy or completeness of the information in this Prospectus. Each person receiving this Prospectus acknowledges that such person has not relied on the Lead Manager or any person affiliated with the Lead Manager in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Bonds must make its own independent investigation and analysis of the creditworthiness of the Issuer and the Co-obligor and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant in connection with such investment.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Bonds and should not be considered to be a recommendation by the Issuer or the Co-obligor, collectively or individually, that any recipient of this document should subscribe for or purchase any Bonds.

The distribution of this Prospectus and the offering, sale and delivery of Bonds may be restricted by law in certain jurisdictions. Persons into whose possession this Prospectus comes are required by the Issuer, the Co-obligor and the Lead Manager to inform themselves about and to observe any such restrictions. None of the Issuer, the Co-obligor or the Lead Manager accept any legal responsibility for any violation by any person, whether or not a prospective purchaser of the Bonds, of any such restrictions. Other than the listing of this Prospectus with the Luxembourg Stock Exchange, no action has been taken under any regulatory or other requirements of any jurisdiction or will be so taken to permit a public offering of the Bonds or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. This Prospectus does not constitute an offer of, or an invitation to purchase, any of the Bonds in any jurisdiction in which such offer or invitation would be unauthorised. For a description of certain restrictions on offers, sales and deliveries of Bonds and on distribution of this Prospectus and other offering material relating to the Bonds, see the section entitled "*Plan of Distribution*".

In particular, the Bonds have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered in the United States.

Purchasers of the Bonds should conduct such independent investigation and analysis regarding the Issuer, the Co-obligor and the Bonds as they deem appropriate to evaluate the merits and risks of an investment in the Bonds. Other than as described above, no representation or warranty, express or implied, is made as to the accuracy or completeness of any information contained in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation as to the past or the future. In making any investment decision with respect to the Bonds, investors must rely (and will be deemed to have relied) solely on their own independent examination of the Issuer and the Co-obligor and the terms of the offering of the Bonds including the merits and risks involved.

This Prospectus has been prepared on the basis that any purchaser of Bonds is a person or entity having such knowledge and experience of financial matters to be capable of evaluating the merits and risks of such purchase. Before making any investment decision with respect to the Bonds, prospective investors should consult their own legal counsel, accountants or other advisers and carefully review and consider such an investment decision in the light of the foregoing.

Without limitation, it should be noted that the Trustee and the Security Agent have not verified the information contained in this Prospectus and have no responsibility or liability as to the accuracy of such information or for the structure of the transaction described in this Prospectus.

This Prospectus has been prepared by the Issuer and the Co-obligor solely for use in connection with the offering of the Bonds described herein and may only be used for the purpose for which it is published.

The Global Bond will contain the following legend: **“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”**.

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS DOCUMENT IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY INVESTORS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

In this Prospectus, all references to **“Czech korunas”** and **“CZK”** are to the lawful currency for the time being of the Czech Republic, all references to **“United States dollars”**, **“US\$”** and **“\$”** are to the lawful currency for the time being of the United States of America, and all references to **“EUR”**, **“€”** or **“euro”** are to the lawful currency of the Member States of the European Union (each, a **“Member State”**) that have adopted 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.

Certain figures included in this Prospectus 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 THE BONDS, CREDIT SUISSE SECURITIES (EUROPE) LIMITED (IN THIS CAPACITY, THE “STABILISING MANAGER”) OR ANY PERSON ACTING ON BEHALF OF IT MAY OVER-ALLOT THE BONDS (PROVIDED THAT THE AGGREGATE PRINCIPAL AMOUNT OF THE BONDS ALLOTTED DOES NOT EXCEED 105 PER CENT. OF THE AGGREGATE PRINCIPAL AMOUNT OF THE BONDS) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) 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 BONDS 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 OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. SUCH STABILISING SHALL BE UNDERTAKEN IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus contains certain “forward-looking statements” relating to SAZKA’s businesses and OSZO’s activities and the sectors in which SAZKA and OSZO and their respective interests operate. Certain forward-looking statements can be identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “is expected to”, “will”, “will continue”, “should”, “would be”, “seeks” or “anticipates”, or similar expressions or the negative thereof or other variations thereof or comparable terminology or by discussions of strategy, plans or intentions. Such statements include descriptions of SAZKA’s business strategies, new products and product development.

Such statements reflect SAZKA’s and OSZO’s current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause SAZKA’s actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Prospectus as anticipated, believed, estimated or expected. SAZKA and OSZO do not intend, and do not assume any obligation, to update any industry information or forward-looking statements set out in this Prospectus.

AVAILABILITY OF DOCUMENTS

The Issuer and the Co-obligor will, at the specified offices of JPMorgan Chase Bank, N.A., London Branch (together with its successors, the “**Principal Paying Agent**”) provide, free of charge, upon oral or written request, a copy of this Prospectus. The Prospectus will also be available on the website of the Luxembourg Stock Exchange (*www.bourse.lu*). Written or telephone requests for such documents should be directed to the specified offices of the Principal Paying Agent or the specified office of J.P. Morgan Bank Luxembourg S.A. (together with its successors, the “**Paying Agent**”, and together with the Principal Paying Agent, the “**Paying Agents**”).

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Consolidated financial information provided in this Prospectus, for SAZKA and its subsidiaries as of and for the periods ended 31 December 2004 and 2005, and for OSZO as of and for the periods ended 31 December 2004 and 2005, have been audited by BDO CS s.r.o, external auditors of SAZKA and OSZO. The unconsolidated unaudited financial results for the first quarter of the 2006 financial year provided in this Prospectus have not been audited by BDO CS s.r.o. The unconsolidated financial information for SAZKA differs from the consolidated financial information in that it does not include the financial information of SAZKA’s subsidiaries.

Unless otherwise indicated, financial information contained in this Prospectus has been reviewed in accordance with International Standards on Assurance Engagements (ISAE 3000).

Translations of amounts from Czech korunas to euro contained in this Prospectus are solely for the convenience of the reader and, unless otherwise stated, are made at 30 December 2005. The exchange rate reported by the Czech National Bank as of 30 December 2005, was CZK 29.005 = €1. No representation is made that the Czech koruna or euro amounts referred to herein could have been or could be converted into euro or Czech korunas, as the case may be, at any particular rate or at all.

For an explanation of certain technical terms that are used when describing the Issuer’s business in this Prospectus, see “Glossary” on page 109.

ENFORCEMENT OF JUDGMENTS AND ARBITRAL AWARDS IN THE CZECH REPUBLIC

The Bonds 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 Bonds. Each of the Issuer and the Co-obligor has appointed Hackwood Secretaries Limited as agent for the service of process in England. The Trustee may, at its election, choose to submit any dispute that it may have with the Co-obligor and the Issuer which arises under or in connection with the Trust Deed, the Bonds and/or the Coupons and/or the Receipts to arbitration in London under the rules of the London Court of International Arbitration (the “**LCIA**”).

The European Council Regulation (EC) No. 44/2001, dated 22 December 2000 (on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters), became applicable in the Czech Republic on 1 May 2004. This regulation provides for obligatory enforcement of judgments issued by courts of another EU Member State (other than Denmark) with certain limited exceptions such as matters related to the constitution, winding-up, bankruptcy judicial arrangements, composition and analogous proceedings in respect of companies or other legal persons. Judgments related to these limited exceptions in EU Member States that do not enforce such judgments rendered by Czech courts, for example England, are not subject to EC Regulation No. 44/2001 and are generally not enforceable in the Czech Republic due to lack of reciprocity. Enforcement of judgments of non-EU Member States in the Czech Republic is governed by Czech Act No. 97/1963 Coll. on International Private and Procedural Law, as amended, which requires, *inter alia*, reciprocal enforcement of judgments of the courts of the Czech Republic in the country of the judgment.

Under Czech law, parties to a contract may, provided that their relationship involves a foreign element (*e.g.*, 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. The Bonds are governed by English law and the Issuer, the Co-obligor and BESTSPORT akciová společnost (“**Bestsport**”) will submit to the non-exclusive jurisdiction of the English courts in the Trust Deed to be dated the Issue Date (the “**Trust Deed**”) between the Issuer, the Co-obligor, J.P. Morgan Corporate Trustee Services Limited as trustee (the “**Trustee**”) and JPMorgan Chase Bank, N.A., London Branch, as security agent (the “**Security Agent**”). See “*Terms and Conditions of the Bonds*”. Foreign entities are able to bring civil proceedings in Czech courts against a Czech resident or a Czech legal entity either directly or by enforcement of an English court judgment. Czech judicial procedures will apply and a judgment of the Czech court will be enforceable in the Czech Republic, subject to, *inter alia*, certain statutory limitations on the ability of judgment creditors to execute a judgment by protecting certain assets (including funds of the Issuer and the Co-obligor held in a bank account which correspond to the Part of Proceeds (as defined below) pursuant to the Lotteries Act (as defined below)) from execution proceedings or forced sale. For an overview of such assets, see the section entitled “*Relevant Czech Legal Matters — Insolvency Law in the Czech Republic — Assets protected from enforcement*” and for a discussion of the issues related to the inability to attach certain funds see “*Risk Factors — Regulatory Risks — Inability to attach the Part of Proceeds on enforcement*”.

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, and (ii) pay a court filing fee.

The Czech Republic and the United Kingdom are both parties to the United Nations Convention on Recognition of Foreign Arbitral Awards of 1958 and any arbitral awards issued by a tribunal convened under the LCIA rules in England would thus be recognised in the Czech Republic in accordance with the provisions of this convention. Recognition and enforcement of the arbitral award may be refused at the request of the party against whom it is invoked only if that party furnishes to the competent authority where the recognition and enforcement is sought, proof that:

(a) the parties to the arbitration agreement were, under the law applicable to them, under some incapacity, or the said agreement is not valid under the law to which the parties have subjected it or, failing any indication thereon, under the law of the country where the award was made;

(b) the party against whom the award is invoked was not given proper notice of the appointment of the arbitrator or of the arbitration proceedings or was otherwise unable to present his case;

(c) the award deals with a difference not contemplated by or not falling within the terms of the submission to arbitration, or it contains decisions on matters beyond the scope of the submission to

arbitration; provided that, if the decisions on matters submitted to arbitration can be separated from those not so submitted, that part of the award which contains decisions on matters submitted to arbitration may be recognised and enforced;

(d) the composition of the arbitral authority or the arbitral procedure was not in accordance with the agreement of the parties; or, failing such agreement, was not in accordance with the law of the country where the arbitration took place; or

(e) the award has not yet become binding on the parties, or has been set aside or suspended by a competent authority of the country in which, or under the law of which, that award was made.

Recognition and enforcement of an arbitral award under this convention may also be refused if the competent authority in the country where recognition and enforcement is sought finds that:

(a) the subject matter of the difference is not capable of settlement by arbitration under the law of that country (in the case of the Czech Republic this may include certain matters relating to real estate);

(b) the recognition or enforcement of the award would be contrary to the public policy of that country; or

(c) the award was procured by fraud.

The Issuer, the Co-obligor and Bestsport have each agreed to secure the obligations of the Issuer under the Trust Deed as follows:

(a) on the Issue Date, the Issuer will enter into and file for registration with the Czech Cadastral Registry: (i) a Czech law governed first-ranking mortgage over SAZKA's headquarters at K Žižkovu č.p. 851, 190 93 Prague 9, Czech Republic and (ii) a Czech law governed mortgage over the land beneath an 18,000 seat multi-purpose sports arena in Prague (the "**SAZKA Arena**") (for the avoidance of doubt, this does not include the small arena, which is currently under construction and such arena once completely constructed, adjoining SAZKA Arena originally designated for training purposes (the "**Small Arena**")) and the land beneath the Small Arena (land plot No. 3343/32) and the following plots of land beneath and adjacent to the SAZKA Arena granting access to the same: plots of land Nos. 3343/9, 3343/29, 3343/35, 3343/30, 3343/60, 3343/41 and 3343/79 registered in the Cadastral Register maintained by the Cadastral Office for the Municipality of Prague, Cadastral Department Prague, on ownership deed no. 5618, cadastral territory of Libeň, municipality of Prague (the "**Arena Land**") (for the avoidance of doubt, this does not include the majority of the land under the Tunnel Land (as defined under "*Description of Certain Underlying Transaction — Description of the Charged Property — SAZKA Arena*"), which mortgage is subordinated to certain administrative liens in respect of unpaid taxes to the initial assessment value of approximately CZK 30 million (€1,034,304) and accrued interest and a court ordered administrative lien of approximately CZK 56 million (€1,930,702) relating to the previous owner of the Arena Land, and each providing the respective lien holder a power of sale of the mortgaged asset through court enforcement proceedings or public auction (the "**Senior Liens**"). The court ordered administrative lien was registered by a court on the basis of a tax authority decision which has now been revoked and as a result, SAZKA asked the court to revoke the administrative lien from the Czech Cadastral Registry. The court revoked the above-mentioned court-ordered administrative lien and thus its deletion from the Czech Cadastral Registry is now only a matter of administration. SAZKA's management expects the lien will be deleted within one year.

(b) on the Issue Date, the Co-obligor will enter into a Czech law governed pledge agreement (the "**Pledge Agreement**") over its 90 per cent. interest in the issued share capital of Bestsport until the date falling three months after a final and non-appealable registration of the mortgage over SAZKA Arena referred to in (c) below is registered with the Czech Cadastral Registry.

(c) on the Issue Date, Bestsport will enter into and file for registration with the Czech Cadastral Registry a Czech law first ranking mortgage over SAZKA Arena (for the avoidance of doubt, this does not include the Small Arena).

In this Prospectus, the Pledge Agreement, together with the mortgages referred to above, the Enforcement Agreement described under "*Description of Certain Underlying Transactions — The Bond Security — The Enforcement Agreement*" and an agreement to be effective on the Issue Date between the Issuer and Bestsport, compensating Bestsport for the grant of security over SAZKA Arena in favour of the Issuer (the "**Arena Mortgage Related Contract**"), are collectively defined as the "**Bond Security**" and the pledged shares, together with the property the subject of the mortgages referred to above, as the

“Charged Property”. Further, the Bond Security, together with the Bonds, the Trust Deed, the Agency Agreement as defined under the Conditions, the Coupons as defined in the Conditions, the Receipts as defined in the Conditions and the Talons as defined in the Conditions are defined as the **“Bond Documents”**.

It is not clear whether a Czech court would recognise enforcement proceedings relating to the Bond Security, or otherwise, made by the Trustee on behalf of holders of Bonds (**“Bondholders”**) because the Trustee is not a direct creditor. In order to mitigate this risk, a direct liability of the Issuer and the Co-obligor has been created in favour of the Security Agent in the Trust Deed although the recognition of liabilities of this nature in the Czech Republic is also uncertain. For a description of the Bond Security, the Charged Property and the method of enforcing the same and the risks related thereto, see *“Description of Certain Underlying Transactions — The Bond Security”*, *“Relevant Czech Legal Matters — Insolvency Law in the Czech Republic — Mortgages in the Czech Republic”* and *“Risk Factors — Risks Relating to the Bonds — Enforceability”*, *“— The Bond Security”* and *“Terms and Conditions of the Bonds — Condition 10 — Enforcement”*.

OVERVIEW

The following overview does not purport to be complete and is qualified in its entirety by, and is subject to, the more detailed information and financial statements and notes thereto contained elsewhere in this Prospectus. For a discussion of certain factors that should be considered by prospective investors in evaluating an investment in the Bonds, see the section entitled "Risk Factors".

SAZKA, a.s.

SAZKA is the principal operator of number lotteries, instant lotteries and odds betting games and other games (including, but not limited to, games of chance) in the Czech Republic. SAZKA's predecessor entity was established by the State Committee for Physical Education and Sport in 1956 to organise sports betting and other gaming activities, including its original betting game, *Sazka*, and the number lottery, *Sportka*, each of which it still operates today. SAZKA became a joint-stock company in 1992, when it was established by means of a Memorandum of Association between the Czech Physical Education Union and the Czech Sokol Community and commenced operations as such in 1993. Its shareholders are civic associations involved in Czech sport and physical education. SAZKA's principal business is regulated in the Czech Republic under Act No. 202/1990 Coll., on Lotteries and Other Similar Games, as amended (the "**Lotteries Act**"). SAZKA is the largest domestic operator of number lotteries and instant lotteries and one of the largest bookmakers in the Czech Republic. SAZKA also conducts non-gaming businesses, including the recharging of mobile telephone credits, the sale of tickets for events at SAZKA Arena and other venues through payment capabilities supported by its online terminals and sale of goods and intends to expand these businesses to include utility bill payments and financial services.

SAZKA is legally obliged under the Lotteries Act to provide financial support to Czech sport and physical education from certain of the proceeds of its gaming activities and is the largest private provider of such funding in the Czech Republic. In addition to sponsoring sport and physical education, SAZKA also contributes to significant social, cultural and charity projects. Under the Lotteries Act, SAZKA is legally bound to distribute at least 20 per cent. of the amount by which SAZKA's income from all betted amounts from all games that it operates exceeds the winnings paid to customers, administrative changes and state supervision costs ("**Part of Proceeds**") to these "good cause" projects. As part of SAZKA's "good cause" distributions, it has financed the construction of SAZKA Arena, which was completed at the end of March 2004.

For the year ended 31 December 2005, SAZKA generated consolidated net income of CZK 1,536,045,000 (€52,957,938.28) compared with CZK 1,306,124,000 (€45,030,994.65) in 2004 which is a year-on year increase of 17.6%. SAZKA derives its revenues principally from gaming operations which are tax exempt. For the year ended 31 December 2005, SAZKA achieved net revenues of CZK 8,737,157,000 (€301,229,339.70), comprising approximately CZK 7,368,906,000 (€254,056,404) generated from gaming operations and CZK 717,790,000 (€24,747,112.56) from other income taxable operations. For the year ended 31 December 2005, proceeds used to support "good causes" totalled CZK 1,324,625,000 (€45,668,850.19). SAZKA contributed an additional CZK 618,301,000 (€21,317,049) to support "good causes" over the amount required by the Lotteries Act for the year ended 31 December 2005.

Recent Developments

SAZKA recently announced unaudited unconsolidated financial results for the first quarter of the 2006 financial year. These included a net profit of CZK 583.2 million (€20.4 million), a 35.4% increase of over CZK 152 million (€5.32 million) in comparison to the first quarter of the 2005 financial year. Proceeds contributed to shareholders (civic associations active in the sports industries) amounted to CZK 290 million (€10.14 million) for the period commencing 1 January to 30 April 2006 (these euro figures are based on the Czech National Bank exchange rate as of 31 March 2006: €1. CZK 28.595).

These results have not been audited by the auditors of SAZKA, and have not been prepared on the same basis as the audited consolidated financial statements of SAZKA as of and for the years ended 31 December 2005 and 2004. No assurance can be given that these results will not differ materially from the corresponding results that will be published by SAZKA in its audited consolidated financial statements as of and for 31 December 2006, as and when such financial statements are published.

OBČANSKÉ SDRUŽENÍ ZELENÝ OSTROV

OSZO is a Czech non-profit civic association established in 2003 by the shareholders of SAZKA. It has no registered capital and it is a co-obligor under the Trust Deed. The Co-obligor is the controlling shareholder of Bestsport, a joint stock company, which was responsible for the construction of, and is responsible for the operation of, SAZKA Arena. The Co-obligor holds a purchase option to acquire SAZKA Arena from Bestsport. For a more detailed description, see “*Description of Certain Underlying Transactions*” and “*Description of OSZO*”. Under its Articles of Association the activities of OSZO include the creation of favourable conditions to support sports, physical education, tourism, culture and education in the Czech Republic, and to support the construction and efficient usage of sports facilities in the Czech Republic, as well as to co-ordinate the activities of its members.

THE OFFERING

This overview is qualified in its entirety by reference to the Conditions which are described more fully under the section entitled "Terms and Conditions of the Bonds" in this Prospectus. Capitalised terms not previously defined in this Prospectus shall have the meanings given to them under "Terms and Conditions of the Bonds".

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| The Issuer | SAZKA, a.s., a joint-stock company incorporated under the laws of the Czech Republic. |
| The Co-obligor | Občanské sdružení ZELENÝ OSTROV, a civic association established under the laws of the Czech Republic. |
| Securities Offered | €215,000,000 9.00 per cent. Secured Amortising Bonds due 2021 |
| Coupon | 9.00 per cent. per annum calculated on the principal amount then outstanding, payable semi-annually in arrear on 12 January and 12 July in each year commencing on 12 January 2007. |
| Issue Price | 99.402 per cent. |
| Issue Date | Expected to be 12 July 2006 |
| Final Maturity Date | 12 July 2021 |
| Payments of Principal | <p>The Bonds shall be repaid in instalments on each Interest Payment Date, commencing on 12 January 2007. The following are the Scheduled Redemption Amounts for each year:</p> <p>Payable on 12 January 2007: €0</p> <p>Payable on 12 July 2007: €0</p> <p>Payable on 12 January 2008: €1,000,000</p> <p>Payable on 12 July 2008: €1,000,000</p> <p>Payable on 12 January 2009: €2,000,000</p> <p>Payable on 12 July 2009: €2,000,000</p> <p>Payable on 12 January 2010: €3,000,000</p> <p>Payable on 12 July 2010: €3,000,000</p> <p>Payable on 12 January 2011: €4,000,000</p> <p>Payable on 12 July 2011: €4,000,000</p> <p>Payable on 12 January 2012: €5,250,000</p> <p>Payable on 12 July 2012: €5,250,000</p> <p>Payable on 12 January 2013: €6,250,000</p> <p>Payable on 12 July 2013: €6,250,000</p> <p>Payable on 12 January 2014: €7,250,000</p> <p>Payable on 12 July 2014: €7,250,000</p> <p>Payable on 12 January 2015: €8,250,000</p> <p>Payable on 12 July 2015: €8,250,000</p> <p>Payable on 12 January 2016: €9,250,000</p> <p>Payable on 12 July 2016: €9,250,000</p> |

Payable on 12 January 2017: €10,250,000

Payable on 12 July 2017: €10,250,000

Payable on 12 January 2018: €11,250,000

Payable on 12 July 2018: €11,250,000

Payable on 12 January 2019: €12,250,000

Payable on 12 July 2019: €12,250,000

Payable on 12 January 2020: €13,250,000

Payable on 12 July 2020: €13,250,000

Payable on 12 January 2021: €14,250,000

Payable on 12 July 2021: €14,250,000

Form and Denomination

The Bonds will be in the form of a Global Bond, without interest coupons and receipts, which will be deposited on or around the Issue Date with a common depository for Euroclear and Clearstream, Luxembourg. The Global Bond will be exchangeable in certain limited circumstances in whole, but not in part, for Bonds in definitive bearer form in the denomination of €50,000 each and with interest coupons and receipts attached.

Use of Proceeds

The gross proceeds from the issue of the Bonds will be lent by the Issuer to Bestsport under a loan agreement for €215,000,000 (or its CZK equivalent) dated on or before 12 July 2006 in order to support their treatment as “good cause payments” set out by the Lotteries Act and certain licences issued to SAZKA. Bestsport will use the amounts received from the Issuer under the Loan Agreement to immediately repay (a) all outstanding amounts owed by Bestsport to the Issuer under the Original Bond Loan Agreement (as defined below) and (b) part of the outstanding obligations owed by Bestsport to the Issuer under a loan agreement entered into to fund the construction of the SAZKA Arena.

The Issuer will use the amounts repaid by Bestsport (i) to redeem the Original Bonds (as defined below), (ii) to pay fees and expenses related to the redemption of the Original Bonds and the issue of the Bonds, and (iii) any remaining amount for its general corporate purposes.

Risk Factors

See the section entitled “*Risk Factors*” for a description of certain risks involved in investing in the Bonds.

Status of the Bonds

The Bonds constitute direct, unconditional and (subject to the valid registration of the Mortgage Agreements with the Czech Cadastral Registry) secured obligations of the Issuer and direct, unconditional and (subject to the provisions of Condition 3(a) (*Negative Pledge*)) unsubordinated limited recourse obligations of the Co-obligor, respectively. The payment obligations of the Issuer and the Co-obligor are joint and several, and the other obligations of the Issuer and the Co-obligor under the Conditions are several.

Bond Security

The obligations of the Issuer under the Trust Deed will be secured by the Head Office Mortgage, the Arena Mortgage (for the avoidance of doubt, this does not include the Small Arena) and the Arena Land Mortgage (as defined below). The enforceability of these mortgages is subject to valid registration of these mortgages with the Czech Cadastral Registry, which is expected to occur within six months from their filing for registration. In order to secure the obligations of the Issuer under the Trust Deed prior to the valid registration of the Mortgages, the Co-obligor will on or before the Issue Date execute a Pledge Agreement securing the Issuer's obligations under the Trust Deed by way of a Czech law pledge over its 90 per cent. interest in the share capital of Bestsport. This Pledge Agreement will terminate upon the date following three months after registration of the Arena Mortgage at the Czech Cadastral Registry.

Upon the Bonds becoming due and repayable pursuant to an Event of Default, or if the Issuer and the Co-obligor fail to redeem the Bonds in full after the Bonds have become repayable in full pursuant to the Conditions, the Trustee will, upon instruction from the Bondholders, in accordance with the provisions of the Trust Deed, in such circumstances instruct the Security Agent to commence enforcement proceedings, including the disposal of the Charged Property, subject to directions from the Bondholders as to their preferred method of enforcement to be carried out based on relevant information obtained (which may include a valuation). Thereafter, the Trustee shall instruct the Security Agent to carry out such enforcement proceedings in such manner as directed to the Trustee by the Bondholders. The proceeds of enforcement under the Bond Security, less the costs of enforcement, shall be apportioned *pari passu* and rateably between Bondholders and applied in the manner described in the Trust Deed and by the Trustee to the extent received by the Trustee. Any moneys so apportioned to Bonds which are not at that time due and payable shall be held by the Trustee on trust for the Bondholders. Neither the Trustee nor the Security Agent shall be required to take any action unless it shall have been indemnified and/or secured to its satisfaction and subject further to the terms of the Trust Deed.

For a description of the Charged Property, the Bond Security and the method of enforcing the same, see "*Description of Certain Underlying Transactions — The Bond Security — Description of the Charged Property*", "*— The Bond Security*" and "*Relevant Czech Legal Matters*" and "*Insolvency Law in the Czech Republic — The Bond Security*" and for risks associated with the enforceability of the Bond Security see "*Risk Factors — Risks Relating to the Bonds — The Bond Security*".

Certain Covenants

Under the Conditions of the Bonds, the Issuer and the Co-obligor will agree, and under the terms of the Trust Deed, Bestsport will agree to certain restrictive covenants including:

- a limitation on security interests over the assets of the Issuer, the Co-obligor and Bestsport;

- a limitation on future Indebtdeness;
- a limitation restricting the activities of Issuer, the Co-obligor and Bestsport;
- a limitation on disposals of assets;
- a limitation on dividends or distributions;
- a limitation on mergers;
- a limitation on the use of proceeds of the Bonds; and
- a limitation on capital expenditure.

The Issuer, the Co-obligor and Bestsport will also agree not to amend any of the Transaction Documents except under certain stipulated circumstances.

For the provisions of these covenants, see “*Terms and Conditions of the Bonds — Covenants*”.

Events of Default

The Bonds contain events of default in relation to:

- (a) non-payment by the Issuer or Co-obligor under the Conditions;
- (b) breach of other obligations by the Issuer, the Co-obligor or Bestsport under or in respect of any Bond Document or any Transaction Document;
- (c) cross-default of the Issuer, the Co-obligor or Bestsport of certain indebtedness;
- (d) enforcement of security against the assets of the Issuer, the Co-obligor or Bestsport;
- (e) the termination, revocation, suspension or expiration of any licence required by the Issuer for gaming activities unless (in the case of a termination, revocation or expiration) the relevant licence is replaced with a licence permitting the holder to carry on the same or substantially the same activities or (in the case of a suspension) the suspension applying to the relevant licence is lifted in each case within 60 days of that termination, revocation, suspension or expiration (as the case may be) and, in any such case, such termination, revocation, suspension or expiration would be likely to have a Material Adverse Effect;
- (f) the commencement of any procedure with a view to the winding-up, liquidation, dissolution or re-organisation (*přeměna*) (other than any frivolous or vexatious steps or proceedings, in each case initiated by any person other than the Issuer, the Co-obligor or Bestsport, a solvent re-organisation or re-organisation approved by the Trustee or an Extraordinary Resolution of the Bondholders) of the Issuer, the Co-obligor or Bestsport;
- (g) the appointment of an administrator (*správce konkursní podstaty, vyrovnací správce*) or similar officer in relation to the Issuer, the Co-obligor or Bestsport or in relation to all or substantially all of their respective assets and this appointment is not discharged within 45 days;
- (h) the inability of the Issuer, the Co-obligor or Bestsport to pay its debts generally as and when they fall due or the

admission of such inability by the Issuer or the Co-obligor or the seeking of a composition or arrangement with its creditors or any class of them;

- (i) the winding-up or dissolution of the Issuer, the Co-obligor or Bestsport except a winding-up or dissolution which has been approved by the Trustee or by an Extraordinary Resolution of the Bondholders;
- (j) any event under the laws of any relevant jurisdiction which has an analogous effect to any of the events referred to in the Events of Default summarised above in (f), (g), (h) or (i); and
- (k) the unlawfulness of the Issuer's, the Co-obligor's or Bestsport's obligations under any Bond Document or Transaction Document to which it is party or to perform or comply with all or any of its obligations under the Bond Documents or Transaction Documents or any of such obligations at any time for any reason cease to be in full force and effect or are declared to be void or illegal or are repudiated or the legality, validity, priority, admissibility in evidence or the enforceability of the Bond Documents or Transaction Documents are at any time contested by the Issuer and, in any such case, such unlawfulness, cessation, declaration, repudiation or contesting has a Material Adverse Effect and remains unremedied for a period of 60 days.

Rating

The Bonds will be rated B by Standard & Poor's and/or another internationally recognised rating agency. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Notices

All notices concerning the Bonds shall be valid if published, so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, in a leading newspaper having general circulation in Luxembourg (which is expected to be the *d'Wort*) or on the internet website of the Luxembourg Stock Exchange (*www.bourse.lu*). If any such publication is not practicable, notice shall be given in a leading English language daily newspaper having general circulation in Europe. If the Bonds are not listed on the Luxembourg Stock Exchange, notice to the Bondholders shall be valid if published in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders, holders of Receipts and holders of Talons shall be deemed for all purposes to have notice of the contents of any notice given to the Bondholders.

Notwithstanding Condition 15 (*Notices*), while all the Bonds are represented by the Global Bond and the Global Bond is deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Bondholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg; *provided, however*, that, so long as the Bonds are listed and admitted for trading on the Luxembourg Stock Exchange

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| Listing | <p>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 <i>d'Wort</i>) or the internet website of the Luxembourg Stock Exchange (<i>www.bourse.lu</i>).</p> <p>Application has been made to list the Bonds on the Luxembourg Stock Exchange and admit the Bonds for trading on the regulated market of the Luxembourg Stock Exchange.</p> |
| Transfer Restrictions | <p>The Bonds will be sold outside the United States in offshore transactions in reliance on Regulation S. None of the Bonds has been registered under the Securities Act and, accordingly, all such securities are subject to restrictions on transfer. See the section entitled "<i>Plan of Distribution</i>".</p> |
| Early Redemption — Redemption for Taxation Reasons | <p>The Issuer may redeem the Bonds in whole, but not in part, at any time upon giving proper notice, if changes in tax laws impose certain withholding taxes on amounts payable on the Bonds. If this should occur, the Issuer will be required to pay a price equal to the outstanding principal amount of the Bonds plus accrued interest and certain other amounts in order to redeem the Bonds.</p> |
| Early Redemption — Redemption at the Option of Bondholders upon a Change of Control | <p>Upon the occurrence of a Change of Control of the Issuer, the Issuer and the Co-obligor may be required by any Bondholder to repurchase its Bonds in whole, but not in part, on the next following Interest Payment Date for cash at 100 per cent. of its then current principal amount of the Bonds on the next Interest Payment Date.</p> |
| Asset Sale Redemption Offer | <p>Upon the occurrence of certain Asset Sales by the Issuer, the Issuer may be required to commence an offer to purchase from the Bondholders its Bonds in an amount equal to the Excess Proceeds of such Asset Sale for cash at 100 per cent. of its then current principal amount of the Bonds.</p> |
| Taxes | <p>All payments of principal and interest in respect of the Bonds and the Coupons by or on behalf of the Issuer or the Co-obligor shall be made without any deduction for withholding taxes of the Czech Republic, except to the extent described in Condition 8 (<i>Taxation</i>).</p> |
| Governing Law | <p>English law, except for the Bond Security and the Transaction Documents, which shall be governed by Czech law.</p> |
| Jurisdiction | <p>English courts (or at the option of the Trustee, arbitration in accordance with the rules of the London Court of International Arbitration).</p> |
| ISIN Code | XS0258547057 |
| Common Code | 25854705 |

DESCRIPTION OF CERTAIN UNDERLYING TRANSACTIONS

Introduction

SAZKA's lottery operations are governed by the Lotteries Act and by specific lotteries licences granted by the Ministry of Finance of the Czech Republic (the "**Ministry of Finance**"). These licences stipulate that a certain portion of SAZKA's revenues must be distributed to "good causes" as defined in the Lotteries Act and SAZKA's licences. As a result, at the end of each financial year, SAZKA must calculate the amount by which its revenues from lotteries and other similar games exceed the amount of prizes paid by it, administrative fees, local charges and the cost of state supervision. Each year, SAZKA is obliged by law to distribute at least 20 per cent. of this amount for social, medical, sports, environmental, cultural or other purposes beneficial to the Czech public as "good cause" payments. Pursuant to SAZKA's Articles of Association, during each financial year, the Board of Directors of SAZKA distributes to its shareholders advances of "good cause" payments of at least 40 per cent. of the total "good cause" payments distributed in the preceding year unless the economic situation of SAZKA does not allow such advances. Within six months of the end of each financial year, a general meeting of SAZKA is convened to approve the annual consolidated financial statements for such year and to determine the remaining amount, and recipients, of "good cause" funds to be distributed for such year. When any advances of "good cause" payments are made, such advances are credited against the amount of the approved final distribution. See the sections entitled "*Description of SAZKA — SAZKA's Non-Lottery and Gaming Businesses — Regulation and Licensing of SAZKA's Lottery Activities*", "*Description of SAZKA — Good Cause Payments*" and "*Relevant Czech Legal Matters*" for a more detailed description of "good cause" payments and SAZKA's obligations under the Lotteries Act.

SAZKA is issuing the Bonds to re-finance its €175,000,000 of 7.375 per cent. amortising bonds due 2014 (the "**Original Bonds**"). This refinancing is being undertaken in order to amend SAZKA's debt maturity profile and to give it greater financing flexibility. Proceeds from the Original Bonds were issued to refinance certain indebtedness of Bestsport and SAZKA that was incurred to complete the construction of SAZKA Arena.

Description of Transaction Documents

Loan Agreement

SAZKA will covenant to on-lend the proceeds of the offering of the Bonds to Bestsport under a loan agreement to be dated the Issue Date (the "**Loan Agreement**") pursuant to which Bestsport will agree to pay to SAZKA amounts that at least match the amortising principal and interest payments due under the Bonds. The Loan Agreement will oblige SAZKA to use these payments to service payments under the Bonds. The Loan Agreement may be accelerated by SAZKA upon stipulated events of default occurring in respect of Bestsport.

Amended Finance Lease Agreement and Management Agreement

On 21 October 2004, OSZO executed a finance lease agreement with Bestsport, pursuant to which OSZO paid to Bestsport leasing instalments that at least matched amortising principal and interest payments under the Original Bond Loan Agreement (as defined below). On the Issue Date, OSZO will amend this finance lease agreement with Bestsport (such amended agreement, the "**Amended Finance Lease Agreement**"), pursuant to which OSZO will pay to Bestsport leasing instalments that at least match amortising principal and interest payments under the Loan Agreement. Under the Amended Finance Lease Agreement, OSZO will have the right to use SAZKA Arena, and be granted a purchase option to acquire title to SAZKA Arena following the scheduled maturity or early redemption of the Bonds and the release of the Bond Security. Either party to the Amended Finance Lease Agreement may rescind it upon (i) an event of default in respect of the other party under the Amended Finance Lease Agreement, (ii) termination of the Management Agreement (as defined below), (iii) bankruptcy or liquidation of either of OSZO or Bestsport or (iv) a material adverse change affecting either OSZO or Bestsport.

Bestsport will retain the right to operate SAZKA Arena under an agreement on temporary use for consideration with OSZO to be dated the Issue Date (the "**Management Agreement**"). Under this agreement, Bestsport will be obliged to operate SAZKA Arena predominantly as a sports facility in accordance with Czech law and is liable for all liabilities associated with its operation. Under the

Management Agreement, Bestsport will agree to pay regular consideration to OSZO for its right to operate SAZKA Arena. Under its terms, OSZO will be entitled to withdraw from the Management Agreement upon giving written notice to Bestsport. Bestsport will be entitled to withdraw from the Management Agreement if there is a material breach thereof by OSZO which is not cured within 60 days of Bestsport requiring OSZO to cure the breach and in certain other circumstances stipulated by Czech law. The Management Agreement will terminate on the earlier of the date (i) occurring ten years after the scheduled maturity date of the Bonds, (ii) when all financial liabilities of SAZKA under the Bonds are irrevocably satisfied in full, or (iii) of the termination or rescission of the Amended Finance Lease Agreement.

Mandatory Contribution Agreement

To the extent that OSZO is not able to meet its liabilities under the Amended Finance Lease Agreement or, if the Amended Finance Lease Agreement is terminated, SAZKA has agreed, subject to annual approval by its shareholders at SAZKA's general meeting, under an agreement to be dated the Issue Date between SAZKA and OSZO (the "**Mandatory Contribution Agreement**"), to distribute payments in the form of "good cause payments" or otherwise to OSZO in order to provide it with the funds required to make due payments under the Amended Finance Lease Agreement or under the Bonds. OSZO will undertake, in the Mandatory Contribution Agreement, to use payments received under this agreement to discharge its liabilities under the Amended Finance Lease Agreement or under the Bonds (as the case may be). This will include potential additional amounts required to be paid by OSZO as a result of, *inter alia*, the imposition of additional tax charges on OSZO's payments under the Amended Finance Lease Agreement.

Under its terms and to the extent permitted under Czech law, the Mandatory Contribution Agreement may not be terminated by either party and shall only terminate (i) on the date occurring ten years after the scheduled maturity date of the Bonds, or (ii) on the day when all financial liabilities of SAZKA under the Bonds are irrevocably satisfied in full, whichever occurs earlier. Because the Mandatory Contribution Agreement regulates the distribution of SAZKA's profits, the amounts to be distributed thereunder must be annually approved by its shareholders in order to be enforceable under Czech law. SAZKA and OSZO, as parties to the Mandatory Contribution Agreement, are therefore reliant upon annual shareholder approval at a general meeting and performance by SAZKA's shareholders under certain shareholders agreements (described below) in order to meet their obligations under this Agreement. If such obligations are not met, the ability of SAZKA and OSZO to meet their obligations under the Bonds as "good cause payments" would be adversely affected. For risks relating to the failure of SAZKA's shareholders to annually approve these arrangements, see "*Risk Factors — Regulatory and Structural Risks — Reliance on shareholders for the performance of the Issuer's and the Co-obligor's obligations under the Bonds*" and for risks relating to payments under the Mandatory Contribution Agreement not being characterised as "good cause payments", see "*Risk Factors — Structural Risks — Certain payments may not be characterised as 'good cause' payments*".

Shareholders Agreements

Under Czech law, shareholders may not vote on matters which are required to be passed in a general meeting if they are interested parties with respect to such matters, unless all shareholders act in concert. Therefore, should a shareholder of SAZKA cease to be a member of OSZO, such shareholder could claim that SAZKA's shareholders who remain members of OSZO are not able to vote at SAZKA's general meetings to approve distributions of "good cause payments" to OSZO. As a result, SAZKA entered into an agreement in connection with the issue of the Original Bonds, dated 27 November 2003, with Český svaz tělesné výchovy ("**CSTV**"), SAZKA's majority shareholder, which owns approximately 68 per cent. of SAZKA's shares (the "**CSTV Cooperation Agreement**"), under which CSTV undertook to terminate its membership in OSZO if such circumstances occur by delivering a notice to OSZO. The CSTV Cooperation Agreement will be amended on the Issue Date to ensure that payments to OSZO in respect of the Mandatory Contribution Agreement and the Bonds are covered by its provisions (such amended agreement, the "**Amended CSTV Cooperation Agreement**"). If such a termination were to occur, CSTV would be able to vote at SAZKA's general meetings in favour of and, due to its majority shareholding in SAZKA, thereby approve the "good cause distributions" to OSZO required under the Mandatory Contribution Agreement. Under its terms, the Amended CSTV Cooperation Agreement will not be capable of termination by either party and shall only terminate (i) on the date occurring ten years after the scheduled maturity date of the Bonds, or (ii) on the day when all financial liabilities of SAZKA and OSZO under the Bonds are irrevocably satisfied in full, whichever occurs earlier.

In addition, SAZKA and Bestsport entered into agreements with SAZKA's shareholders, each dated 4 November 2003 (the "**Priority Distribution Agreement**" and the "**Priority Payment Agreement**", respectively), whereby such shareholders agreed to resolve at SAZKA's general meetings that "good cause payments" in amounts sufficient to service payments under the Original Bonds be distributed by SAZKA to OSZO, and not to claim any distributions of SAZKA's "good cause payments" or profit if such distribution would result in any payment due under the Original Bonds not being duly paid by SAZKA in full when due. On the Issue Date, SAZKA and Bestsport will enter into agreements with SAZKA's shareholders to amend the Priority Distribution Agreement (such amendment agreement, the "**Amended Priority Distribution Agreement**") and the Priority Payment Agreement (such amended agreement, the "**Amended Priority Payment Agreement**") in order that their provisions protect "good cause payments" under the Bonds. In order to protect against non-performance risks by the shareholders, the Amended Priority Distribution Agreement and the Amended Priority Payment Agreement may not, under their respective terms, be terminated by any party and shall only terminate (i) on the date occurring ten years after the scheduled maturity date of the Bonds, or (ii) on the day when all financial liabilities of SAZKA under the Bonds are irrevocably satisfied in full, whichever occurs earlier. Under the respective terms of the Amended Priority Distribution Agreement and the Amended Priority Payment Agreement, termination with respect to one party does not affect the rights and obligations of other parties thereunder. The ability of parties to the Amended Priority Distribution Agreement to contract out of termination provisions that are based on Czech law may be however limited.

For further discussion of risks relating to the failure to obtain shareholder approval for agreements that govern underlying Bond cashflows and potential limitations on enforceability of the shareholder agreements, see "*Risk Factors — Regulation and Structural Risks — Reliance on shareholders for the performance of the Issuer's and Co-obligor's obligations under the Bonds*".

Description of Underlying Cashflows Servicing Payments under the Bonds

Relationship between the Transaction Documents

Each of the Loan Agreement, the Amended Finance Lease Agreement, the Mandatory Contribution Agreement, the Management Agreement, the Amended CSTV Cooperation Agreement, the Amended Priority Distribution Agreement and the Amended Priority Payment Agreement, (as defined below) (the "**Transaction Documents**") will be governed by Czech law. Each of SAZKA and OSZO will covenant in the Conditions that they will not, subject to certain limited exceptions, amend, waive or terminate any of the provisions of the Transaction Documents to which they are party. OSZO has further covenanted in the Conditions, that subject to certain exceptions that it will not amend its Articles of Association. Each of OSZO and Bestsport will covenant in the Conditions and the Trust Deed, respectively, not to undertake any activity that is not envisaged by the Transaction Documents to which it is a party unless, in the case of Bestsport, *inter alia*, such activity is otherwise permitted under the Conditions. See the section entitled "*Conditions of the Bonds — Condition 3 — Covenants — No Variation or Waiver*". See the section entitled "*Relevant Czech Legal Matters — Insolvency Law in the Czech Republic*" for a description of how obligations under the Transaction Documents and Bond Documents may be affected by a party's insolvency. For a description of the tax risks relating to these agreements, see "*Risk Factors — Regulatory and Structural Risks — Tax issues concerning the underlying structure*".

Under the Transaction Documents, prior to any Interest Payment Date (as defined in the Conditions), the following transactions will occur:

- SAZKA is required to distribute "good cause" or other payments to OSZO pursuant to the terms of the Mandatory Contribution Agreement;
- upon receipt by OSZO of the same, OSZO is bound to discharge, pursuant to the terms of the Mandatory Contribution Agreement, its liabilities under the Amended Finance Lease Agreement and make payment to Bestsport;
- upon receipt by Bestsport of payments due under the Amended Finance Lease Agreement from OSZO, Bestsport, pursuant to the terms of the Amended Finance Lease Agreement, shall use such funds to discharge its liabilities under the Loan Agreement owed to SAZKA; and
- upon receipt by SAZKA of payments under the Loan Agreement from Bestsport, SAZKA shall use such funds to discharge its liabilities under the Bonds.

The payments described above are referred to herein as the "**Underlying Cashflows**".

Certain Underlying Cash Flows as “Good Cause Payments”

In the event that the Amended Finance Lease Agreement is terminated or rescinded either due to OSZO’s payment default under the Amended Finance Lease Agreement or otherwise, SAZKA will distribute “good cause” or other payments to OSZO pursuant to the terms of the Mandatory Contribution Agreement; and upon receipt by OSZO of the same, OSZO will discharge its liabilities as co-obligor under the Bonds. SAZKA’s obligation to discharge its liabilities under the Bonds is not qualified or conditioned upon its receipt of payments under the Loan Agreement. Payments of Part of Proceeds by SAZKA to OSZO under the Mandatory Contribution Agreement, by OSZO to Bestsport under the Amended Finance Lease Agreement and, in the event the Amended Finance Lease Agreement is terminated, payments of Part of Proceeds from OSZO to the Bondholders, the Trustee or the Security Agent for the purposes of discharging OSZO’s obligations as co-obligor under the Bonds and the Trust Deed, are subject to the regulation of the Lotteries Act and to the supervision of the Ministry of Finance, and are required to be “good cause” payments. These payments are referred to herein as “**Regulated Underlying Cashflows**”.

In order for SAZKA and OSZO to be able to use the “good cause payments” to effect the Regulated Underlying Cashflows, these payments must satisfy the criteria for “good cause payments” set out by the Lotteries Act and the relevant licences issued to SAZKA. Management believes that, based upon written representations of the Ministry of Finance to SAZKA in connection with the Original Bonds, its experience with the application of the Lotteries Act, the practice of the Ministry of Finance and a legal opinion of SAZKA’s external legal counsel, the Regulated Underlying Cashflows will be treated as “good cause payments” in sports under the Lotteries Act and the relevant lottery licences issued to SAZKA. In a written representation relating to the Original Bonds dated 26 November 2003, the Ministry of Finance confirmed that SAZKA’s existing licence for the operation of betting games through the central lottery system with interactive video lottery terminals dated 1 August 2003 (the “**IVT Licence**”), as extended by an amendment dated 1 October 2003 (the “**IVT Licence Amendment**”), refers to the construction, operation and maintenance of SAZKA Arena as a “good cause in sports”. In addition, this representation of the Ministry of Finance stated that SAZKA may use proceeds of other lotteries and betting games for “*public good in sports including activities related to sports, physical education and tourism, construction, operation and maintenance of sports grounds, and financing all activities of civic associations active in sports, physical education and tourism and also in the area of culture*”. The Ministry of Finance further clarified its position in a second written representation dated 1 December 2003, which confirmed that the financing, acquisition, construction, operation and maintenance of SAZKA Arena may be paid for with the Part of Proceeds generated by SAZKA from all of its lotteries and betting games operated under its licenses and in a third written representation dated 17 December 2003, which stated with respect to the Original Bonds and the structure of the underlying cashflows relating to the Original Bonds “*provided that SAZKA Arena will be used as a sports facility, the manner of use of the distribution of the part of proceeds . . . is in compliance with Act No. 202/1990 Coll., on Lotteries and Other Similar Games, as amended, and with all licenses issued to SAZKA, a.s., by the Ministry of Finance under the said Act.*” As the structure of the Underlying Cashflows replicates the underlying cashflow structure for the Original Bonds, management believes SAZKA is entitled to use the Part of Proceeds generated under its other licenses for lottery and betting activities, which allow for the distribution of Part of Proceeds to “good causes” in sports as well as the Part of Proceeds governed by the IVT Licence and the IVT Licence Amendment as Regulated Underlying Cashflows and to service payments under the Bonds. For a description of the risks involved in the characterisation of the Regulated Underlying Cashflows as “good cause payments”, see the section entitled “*Risk Factors — Regulatory and Structural Risks — Certain payments may not be characterised as ‘good cause’ payments*”.

The role of the Co-obligor

OSZO was created to acquire SAZKA Arena from Bestsport and to fund Bestsport’s liabilities that were incurred in connection with the construction of SAZKA Arena. OSZO is a civic association regulated by the Czech Ministry of Interior (the “**Ministry of Interior**”) and also acts as co-obligor of the Bonds in order to support the regulatory treatment of payments under the Mandatory Contribution Agreement as “good cause payments”. OSZO will covenant in the Conditions to only undertake activities that are consistent with its Articles of Association, its obligations under the Transaction Documents, and will covenant in the Trust Deed to only undertake activities that are consistent with its status as a special purpose entity. See the section entitled “*Description of OSZO*” for additional information. For a description of the risks in using a civic association in such capacity, see “*Risk Factors — Regulatory and Structural Risks — Risks relating to OSZO*”.

The Bond Security

Pursuant to the Trust Deed, the Security Agent will be granted rights parallel to the payment obligations of SAZKA and OSZO under the Conditions and the Trust Deed and will be a several creditor with the Bondholders of the Bonds.

The Mortgage Agreements

On the Issue Date, SAZKA will enter into and file for registration with the Czech Cadastral Registry (i) a mortgage agreement with the Security Agent by a first-ranking mortgage over the Head Office (as defined below) and the land underlying such building as well as certain adjacent plots of land granting access to the same (the “**Head Office Mortgage**”) and (ii) a mortgage agreement over the Arena Land (the “**Arena Land Mortgage**”) in each case to secure its obligations under the Trust Deed. Rights under the Arena Land Mortgage are subordinated only to (i) approximately CZK 30 million (€1,034,304) and accrued interest and (ii) approximately CZK 56 million (€1,930,702) of historic tax liabilities and administrative liens arising under its previous ownership by Quonex (the “**Senior Liens**”). SAZKA will undertake in the Trust Deed to ensure that the Arena Land Mortgage and the Head Office Mortgage is registered by the Czech Cadastral Registry within one year of the Issue Date.

On the Issue Date, Bestsport will execute and file for registration with the Czech Cadastral Registry a mortgage agreement with the Security Agent in order to secure SAZKA’s obligations under the Trust Deed by first ranking mortgage over SAZKA Arena (the “**Arena Mortgage**”). The Small Arena will not be secured under the Bond Security. Bestsport will undertake in the Trust Deed to ensure that the Arena Mortgage is registered in the Czech Cadastral Registry within one year of the Issue Date.

Each of the Arena Mortgage, the Arena Land Mortgage and the Head Office Mortgage (collectively, the “**Mortgages**”) are governed by Czech law and once registered, will provide the Security Agent with the ability to satisfy its rights under the Trust Deed from the proceeds of a forced sale of the Charged Property which is subject to the Mortgages. In the event the Bonds are accelerated, the Security Agent is obliged, following the Trustee obtaining professional advice and direction from the Bondholders as to the method of realisation of the Charged Property and instructing the Security Agent accordingly, to immediately take steps to enforce the Mortgages and Pledge Agreement (as described below) and to the extent that the Bond Security fails to satisfy the obligations of the Issuer under the Trust Deed, any remaining unsecured obligations under the Trust Deed.

There will be no security interest in the proceeds of insurance contracts maintained by the Issuer or Bestsport over the Charged Property or any rights on the part of the Security Agent or Trustee to direct or approve the payment of such proceeds.

See the section entitled “*Relevant Czech Legal Matters — Mortgages in the Czech Republic*” for information on enforcement of mortgages in the Czech Republic and see “*Risk Factors — Risks Relating to the Bonds — The Bond Security*” for risks relating to the Bond Security and enforcement of the same by the Security Agent.

Under Czech law, amounts secured under the Mortgage Agreements are limited to a maximum amount of €250 million, which subsist for 22 years after the Issue Date. The Mortgage Agreements are enforceable upon non-payment of the liabilities secured thereunder, but not for breaches other than non-payment.

The Pledge Agreement

In addition, on the Issue Date, OSZO will enter into a Czech law governed Pledge Agreement with the Security Agent under which it shall pledge the shares owned by it and representing 90 per cent. of the entire issued share capital of Bestsport to the Security Agent to enable the Security Agent to satisfy its rights under the Trust Deed. The pledge of these shares of Bestsport shall be effected by way of physical delivery of certificated shares to an attorney-in-fact acting on behalf of the Security Agent. Immediately thereafter, the pledged shares shall be deposited with a custodian in the Czech Republic. Following the date falling three months after a final and non-appealable registration of the Arena Mortgage, the pledge of the share capital of Bestsport as evidenced by the Pledge Agreement will be released. Under the terms of the Pledge Agreement and applicable law, the pledge created under the Pledge Agreement shall extend to any dividends eventually paid by Bestsport. The Security Agent shall not exercise any of the voting rights attached to the pledged shares.

The Enforcement Agreement

The Issuer will, on the Issue Date, enter into an enforcement agreement with the Security Agent in the form of a notarial deed whereby it acknowledges the right of the Security Agent to enforce the obligations of SAZKA under the Trust Deed (the “**Enforcement Agreement**”). The Enforcement Agreement further acknowledges the right of the Security Agent to enforce the obligations of SAZKA under the Trust Deed. The Enforcement Agreement will be governed by Czech law.

The Arena Mortgage Related Contract

Although the Arena Mortgage Related Contract is part of the Bond Security because it is ancillary to the Arena Mortgage, neither the Trustee nor the Security Agent has any security in respect of this agreement or is a party to the same.

Description of the Charged Property

Neither the Lead Manager nor the Trustee has obtained any certificate of title or conducted any investigation of the like for any of the Charged Property. In particular, they have not independently established whether different rights of access over adjacent land to SAZKA Arena have been granted or retained by the relevant owner to own and operate such property effectively. Further, they have not obtained any independent open market valuations of SAZKA Arena. Book values are only provided in this Prospectus as a guide to value, are produced for internal auditing purposes only, and do not indicate market value for any of the Charged Property and consequently should not be relied upon as such.

Pursuant to Czech law, buildings and plots of land are subject to registration with the Czech Cadastral Registry. The Czech Cadastral Registry is the single public registry of buildings and plots of land located in the Czech Republic and provides for documentary evidence of title and other property rights to real estate (including mortgages and other encumbrances). Should real estate registered in the Czech Cadastral Registry be transferred by agreement, the transferee acquires title to it by the entry of the transferred title in the Czech Cadastral Registry.

The following will be secured in favour of the Security Agent by way of the Mortgages:

Head Office and adjacent plots

SAZKA's head office building (the “**Head Office**”) is located on plot of land No. 1898/4, in the cadastral area of Vysočany, with 3,753 sq. metres owned by SAZKA and on plot of land No. 1887/3, in the cadastral area of Vysočany, with 17 sq. metres owned by the Czech state. The Head Office is used by SAZKA as its corporate headquarters. Its total floor area is 31,431.8 sq. metres. The Head Office was built in 1994, and SAZKA's ownership title to it was registered in the Czech Cadastral Registry pursuant to a decision of the Cadastral Office for the City of Prague No. Z — 3833/94 dated 31 May 1994.

An area of 6,806 sq. metres in the Head Office is leased to BUSINESS CENTRE SERVICE, a.s., a company organised and existing under the laws of the Czech Republic, and wholly-owned by SAZKA with its registered office at K Žižkovu 851, Prague 9 (“**BCS**”), under an Agreement on Lease of Nonresidential Premises dated 2 January 2001 between SAZKA and BCS, at a monthly rent of CZK 891,566 (€30,738) is for an unlimited period of time and may be terminated by either party with one year's notice. The Head Office is abutted by land plot (i) No. 1898/3 in the cadastral area of Vysočany, with an area of 2.356 sq. metres, (ii) No. 1897/9 in the cadastral area of Vysočany, with an area of 45 sq. metres and (iii) No. 1899/2, cadastral area of Vysočany, with the area of 303 sq. metres. These plots of land are necessary for access to the Head Office and are owned by SAZKA.

Immediately prior to the filing of the Head Office Mortgage, the Head Office will on the Issue Date be unencumbered although the land on which the Head Office is situated is subject to customary utilities easements. The Head Office's book value is CZK 730,387,000 (€25,181,416.99) as at 31 December 2005. The Head Office currently has the benefit of an insurance policy which management believes provides total cover in accordance with good industry practice. SAZKA has covenanted in the Trust Deed to effect and maintain suitable insurance for the Head Office until the maturity of the Bonds although there will be no security or control of application of proceeds from such insurance in favour of the Bondholders. For a description of the risks relating to the ability of the Security Agent to attach or direct the use of proceeds under this policy, see “*Risk Factors — The Bond Security*”.

SAZKA Arena

SAZKA Arena, part of a brownfield site development called Zelený Ostrov (Green Island), is a building (No. 2345) which is located on land with plot number No. 3343/35, in the cadastral area of Libeň.

Its maximum capacity is 18,000 spectators. SAZKA Arena is owned by Bestsport and located on the Arena Land. For a description of the risks relating to registration of the Arena Land Mortgage, see “*Risk Factors — The Bond Security — Registration*”.

On 22 March 2004, occupancy permit No. 01423/04/OVUR/Be/EC19770/2004 was issued by the District Council of Prague 9 in respect of SAZKA Arena. Ownership title of Bestsport to SAZKA Arena is registered in the Czech Cadastral Registry under title number 7024. Save for the Arena Mortgage, three-year leases for sky boxes and one-year leases for club seats, SAZKA Arena will, on the Issue Date, be unencumbered. A court appointed valuation dated 1 September 2004 valued SAZKA Arena at CZK 9,036,000,000 (€311,532,494) and its book value as at 31 December 2005 was CZK 8,018,602,000 (€276,455,852.39).

Easements

As SAZKA Arena, the Arena Land, the Small Arena and Zelený Ostrov are in the immediate vicinity of each other, certain rights between these properties in the form of easements may be relevant as described below.

Access Easement: There are several parking lots near SAZKA Arena. The parking lots are owned by Bestsport. Neither the parking lots nor the land underneath them will be secured under the Bond Security. Parking for certain VIP customers is also available in an underground area beneath SAZKA Arena (comprising a parking lot up to 240 vehicles) (the “**Underground Parking**”). This Underground Parking forms a part of SAZKA Arena and will be secured as part of the Bond Security. The Underground Parking can be accessed by two entrances — by an entrance on the north-east side of SAZKA Arena and by a tunnel (as more fully described in the Conditions, the “**West Tunnel**”). Visitors can also access SAZKA Arena by subway and by tram, and the relevant means of access for subway and tram borne visitors is from Českomoravská Street (where a tram station is located) and Ocelářská Street (where a subway station is located) over land which forms part of the Arena Land.

Access for visitors visiting SAZKA Arena from Českomoravská Street is primarily provided by a bridge running through the construction of the Small Arena into SAZKA Arena (the “**Bridge**”). As long as Bestsport owns both the Small Arena and SAZKA Arena, it is not necessary to create legal rights, in the form of a Czech law easement, to allow the Bridge to run through the Small Arena. However, the Small Arena will not be secured under the Bond Security and Bestsport may, in the circumstances set out in Condition 3(d) (*Disposal of Assets*), dispose of the Small Arena. Ownership of either the Small Arena or SAZKA Arena may also change in other non-voluntary circumstances, for example as a consequence of a court ordered sale in the event of bankruptcy of the respective owner. In such circumstances, in the absence of an easement for use of the Bridge, the owner of the Small Arena may prevent use of the Bridge by visitors to SAZKA Arena. Management believes that such a measure would not have a significant adverse effect on access to SAZKA Arena as other entrances to SAZKA Arena are available which are sufficient for the reasonable operation of the premises. To ensure that the convenience of access to the SAZKA Arena by its visitors coming from Českomoravská Street will remain unaffected by any disposal of the Small Arena by Bestsport however, Bestsport intends to oblige, upon the sale or lease of the Small Arena, the purchaser of the Small Arena to create an easement to allow the siting and usage of the Bridge running through the Small Arena for the benefit of SAZKA Arena (the “**Access Easement**”). It should be noted however that neither the Issuer nor Bestsport have undertaken any obligations in the Bond Documents to create or grant the Access Easement.

Non-Disturbance Easement: Certain underground parts of SAZKA Arena, in particular parts of a storage and supply area and certain rooms housing technical equipment are located beneath the Small Arena (the “**Underground Facilities**”). The Underground Facilities are accessible by a tunnel (as more fully described in the Conditions, the “**East Tunnel**”). Both the Underground Facilities as well as the East Tunnel form a part of SAZKA Arena and will be secured under the Bond Security. Further, the land above the Underground Facilities (namely plot of land no. 3343/32 in the registration area of Libeň) and the land above the Underground Parking (namely plot of land no. 3343/35 in the registration area of Libeň) will also be secured under the Bond Security. In the event of a sale of the Small Arena, Bestsport intends to ensure that an easement is created, for the benefit of the owner from time to time of SAZKA Arena, to provide undisturbed access to and use of the West Tunnel, the East Tunnel, the Underground Parking and the Underground Facilities (the “**Non-Disturbance Easement**”). It should be noted however that neither the Issuer nor Bestsport have undertaken any obligations in the Bond Documents to create or grant the Non-Disturbance Easement

Operational Easement: Bestsport holds the benefit of an easement to build, provide good access to and operate SAZKA Arena (the “**Operational Easement**”), which was granted to it by Quonex. The Operational Easement is revocable by mutual agreement of the parties thereto, currently Bestsport and the Issuer. To ensure continued rights of operation, Bestsport has undertaken in the Amended Finance Lease Agreement and the Trust Deed to take all steps to prevent termination of the Operational Easement encumbering the Arena Land. While binding on the Arena Land, the Operational Easement is non-assignable by Bestsport. Thus, if SAZKA Arena is sold (including, without limitation, in an enforcement sale by the Security Agent), a prospective buyer will not hold the benefit of the Operational Easement. A subsequent owner of SAZKA Arena may request that the then current owner of the Arena Land grant a new operational easement to it, and if this is refused, the transferee of SAZKA Arena may apply to the Czech court for the grant of an easement of necessity for access to SAZKA Arena. This may, at the discretion of the Czech court, be granted in exchange for an amount payable to the owner of the Arena Land as determined by such court. If the transferee was also to own the Arena Land, which on an enforcement of the Bond Security is possible, but not guaranteed, the grant of a replacement easement would be within its own power. The Czech court also has the power to order that SAZKA Arena is transferred to the owner of the Arena Land for market value, but management do not believe a Czech court will make such an order in practice considering the significant difference in market value between SAZKA Arena and the Arena Land.

Other circumstances, aside from sales to third parties, may result in the Arena Land and SAZKA Arena subsequently being owned by unconnected parties. This may occur, for example, in the case of either property where an unsecured creditor of the relevant owner who has an execution title against such owner (such as, for example, a court judgement or an enforcement agreement), initiates successful court execution proceedings against the assets of such party by forced sale of the relevant land to satisfy its claims (notwithstanding such creditor ranking behind, *inter alia*, secured creditors as regards distribution of proceeds of the sale of the assets sold in the execution proceedings). The terms of the Operational Easement relate only to the construction of, access to and operation of SAZKA Arena and there are no provisions of Czech law that explicitly entitle the owner of SAZKA Arena to an easement of necessity in respect of the Arena Land should the Operational Easement cease to exist. Therefore, there is a risk that a subsequent owner of SAZKA Arena could be required by a court order to remove SAZKA Arena from the Arena Land and/or the Underground Parking and/or the Underground Facilities from beneath the Arena Land should the Operational Easement cease to exist. Given the difference between the value of SAZKA Arena and the Arena Land and/or the Small Arena and, given the good causes for which SAZKA Arena is likely to serve, SAZKA’s management believe that the risk that a court would order such an extreme measure is remote.

For a description of the risks related to non-assignability of the Operational Easement in circumstances where the ownership of the Arena Land or SAZKA Arena changes, see the section entitled “*Risk Factors — The Bond Security — Easements and Rights Affecting SAZKA Arena*”.

The Operational Easement also gives Bestsport the right to locate and use the West Tunnel for access to the Underground Parking, the East Tunnel for access to the Underground Facilities, the Underground Facilities and the Underground Parking under the land currently owned by SAZKA. However, should the ownership of SAZKA Arena be transferred, either as a result of an enforcement sale or otherwise, the new owner of SAZKA Arena will not benefit from the Operational Easement and would be required by the current and future owner of the land above the East Tunnel and/or West Tunnel to agree on a right to use the East Tunnel and/or the West Tunnel and/or the Underground Facilities and/or the Underground Parking, as applicable. If Bestsport fails to ensure, upon the sale of the Small Arena, that the future owner of the Small Arena enters into an easement encumbering the Small Arena which will prevent any potential interference with the West Tunnel, the East Tunnel, the Underground Parking and the Underground Facilities through the ground beneath the Small Arena, a similar threat to use of these facilities by the owner of SAZKA Arena could exist. In the absence of these easements, the owner of the SAZKA Arena would need to apply to a Czech court for a grant of an easement of necessity, which, at its discretion, may grant such an easement for consideration to be determined by the court.

Tunnel Easements: The entrances to the East Tunnel as well as to the West Tunnel are located on the Arena Land. SAZKA intends upon the sale of the land which under either the East Tunnel or West Tunnel pass (together the “**Tunnel Land**”) (or a part thereof) to procure that an easement for the benefit of each future owner of the SAZKA Arena is granted by the purchaser of the relevant Tunnel Land (or a part thereof) and file for its registration with the Cadastral Registry. As, under Czech law, it is not possible to establish an easement for the benefit of an underground construction, this new easement will

(A) restrict each owner of the land above the West Tunnel and/or the East Tunnel (as applicable) from construction or any other activities which could adversely impact (i) the existence, operation, use, upgrade, replacement, repairs and maintenance of the West Tunnel and/or the East Tunnel (as applicable), (ii) full and unrestricted access through the West Tunnel and/or East Tunnel (as applicable) by each owner of SAZKA Arena or any person authorised by such owner; and (B) enable each owner of SAZKA Arena full and unrestricted access to and through the land above West Tunnel and/or East Tunnel (as applicable) to each owner of SAZKA Arena and any person authorised by such owner for the purposes of, among other things, operation, use, upgrade, replacement, repairs or maintenance of the West Tunnel and/or East Tunnel (as applicable) (each, a “**Tunnel Easement**”).

Small Arena Easements: Additionally, the Issuer will be allowed to establish an easement encumbering plots of land nos. 3343/9, 3343/29, 3343/30 and 3343/41 in the registration areas of Libeň, municipality of Prague for the benefit of the Small Arena which will grant a right to each owner of the Small Arena to pass through plots of land nos. 3343/9, 3343/29, 3343/30 and 3343/41 in the registration area of Libeň, municipality of Prague at any time in order to allow access to the Small Arena from Českomoravská Street by the owner of the Small Arena, its employees and visitors to the Small Arena (each, a “**Small Arena Access Easement**”). In the event Bestsport disposes of the Small Arena or a part thereof, the Issuer intends to establish an easement encumbering plot of land no. 3343/32 in the registration area of Libeň, municipality of Prague for the benefit of the Small Arena which will grant a right to each owner of the Small Arena to locate and operate the Small Arena on plot of land no. 3343/32 in the registration area of Libeň, municipality of Prague (“**Small Arena Land Easement**”); further, in the event of such disposal, Bestsport, intends to establish an easement encumbering SAZKA Arena for the benefit of the Small Arena which will grant a right to each owner of the Small Arena to locate and operate the above-ground part of the Small Arena on the underground part of SAZKA Arena (the “**Small Arena Resting Easement**” and, together with the Small Arena Access Easement and the Small Arena Land Easement, the “**Small Arena Easements**”). It should be noted that the granting of such rights are not subject to any restrictions in the Bond Documents and will not be monitored or investigated in any circumstances by the Trustee or the Security Agent.

For the avoidance of doubt, the Tunnel Easements and the Small Arena Easements will be created over such parts of the respective property only to the extent required to meet the purposes of such easements and shall not extend over any other part of the respective subject property to which they relate.

Other than rights granted under the Operational Easement, the Tunnel Easements, the Access Easement and the Non-Disturbance Easement, Bestsport is not currently and it will not, as a result of the sale or disposal of any interest in land, be dependant on any other rights pertaining to land (other than to SAZKA Arena itself under the existing Operational Easement) or any third party (other than for the supply of utilities in the normal course of business and under the Management Agreement) to operate SAZKA Arena. Due to the fact that no third party expert has been employed to assess potential third party rights or potential rights that might be required in the future to operate SAZKA Arena, there is a potential risk that Bestsport may at some point in the future discover that other rights pertaining to land or a third party (other than those discussed above) in order to operate SAZKA Arena effectively.

Bestsport has concluded an insurance policy with a syndicate of Czech insurance companies (AIG CZECH REPUBLIC, Česká pojišť'ovna, Kooperativa and Podnikatelská pojišť'ovna) with respect to SAZKA Arena and its operation which management believe provides total cover in accordance with good industry practice. Additionally, Bestsport has covenanted in the Trust Deed to effect and maintain suitable insurance for SAZKA Arena until the maturity of the Bonds. See “*Risk Factors — The Bond Security*”.

Arena Land

The Arena Land supports SAZKA Arena and provides access to SAZKA Arena and is located on land plots No. 3343/9, with the area of 3,688 sq. metres, No. 3343/29, with the area of 4,357 sq. metres, No. 3343/35, with the area of 22,370 sq. metres, built up area and courtyard, and also includes the land beneath the Small Arena, plot of land no. 3343/32, and the following plots beneath and adjacent to SAZKA Arena: plots of land Nos. 3343/30, 3343/60, 3343/41 and 3343/79, all in the cadastral territory of Libeň, municipality of Prague, district of Prague Capital. Access to and operation of SAZKA Arena for Bestsport is currently dependant on the Operational Easement. In the event a third party acquires title to the Arena Land, such title will be subject to rights granted under the Operational Easement. The Arena Land is currently encumbered with the Senior Liens and customary utilities easements. As at 31 December 2005, the book value of the Zeleny Ostrov land, of which the Arena Land forms a significant

part, was CZK 416,956,911 million (€14,375,346). The Small Arena, which Bestsport is allowed to dispose of under the Conditions, is located on and surrounded by the Arena Land. As previously discussed, it also partially rests upon certain underground parts of the SAZKA Arena. In order for a disposal of the Small Arena to be practicable it is necessary to ensure that any future owner of the Small Arena has the right to have the Small Arena located on the Arena Land and rest on the SAZKA Arena together with the right to duly access and operate the Small Arena. Consequently, the Conditions allow SAZKA to encumber the Arena Land and SAZKA Arena with the Small Arena Easements that allow the location of the Small Arena on the Arena Land, its resting on the SAZKA Arena and the right of access to and operation of the Small Arena for the benefit of any current and future owner of the Small Arena. The Arena Land is uninsured. For a description of the risks relating to registration of the Arena Land Mortgage, see “*Risk Factors — The Bond Security — Registration*”.

Bestsport’s Shares

Bestsport’s share capital is comprised of 500 bearer shares with a nominal value of CZK 3,000 and 100 bearer shares with a nominal value of CZK 100,000. All of these shares were issued in certificated form and were not approved for trading on the public markets. On 27 October 2003, all of these shares were replaced by four global certificates. OSZO has agreed in the Pledge Agreement to pledge 450 shares (the “**Pledged Shares**”) with a nominal value of CZK 3,000 per share in a form of global certificate and 90 shares with a nominal value of CZK 100,000 per share in a form of global certificate. The Pledged Shares represent 90 per cent. of the voting rights in Bestsport. For the period the Pledged Shares remain pledged, they may not be transferred by OSZO to a third party under the terms of the Trust Deed.

Under Czech law, the Bestsport shares entitle their owner to, *inter alia*, attend and vote at the shareholders’ meetings, request and receive explanations regarding matters concerning Bestsport, file proposals and counterproposals, request Bestsport to convene its extraordinary general meeting and request the addition of an item in the agenda of Bestsport’s general meeting which are attached to the pledged shares or receive the dividends approved by the shareholders’ meeting for distribution.

Benefits of Legal Opinions in Respect of Real Property/Warranties

Internal counsel to SAZKA will, on the Issue Date, deliver a legal opinion to the effect that as at the Issue Date, SAZKA owns title to (i) the Head Office and the adjacent plots described above free of encumbrances (save for those created or permitted under the Bond Security and the security securing the Existing Bonds), and (ii) the Arena Land free of encumbrances (save for the Senior Liens, those created or permitted under the Bond Security and the security securing the Existing Bonds) and (iii) that Bestsport owns, free of encumbrances (save for those created or permitted under the Bond Security and the security securing the Existing Bonds), title to SAZKA Arena. SAZKA will also make certain customary representations in the agreement relating to the Head Office Mortgage and the Arena Land Mortgage (subject to customary exceptions) and/or in the Trust Deed, including title to the Head Office and the Arena Land; absence of encumbrances and other third party rights (save for the Senior Liens); absence of transfers of ownership rights; absence of conflicts with constitutional documents, agreements and other instruments; accuracy of information provided by SAZKA; sufficiency of the Operational Easement, for Bestsport’s use of the SAZKA Arena and absence of certain proceedings. The Arena Mortgage Agreement and/or the Trust Deed, contains substantially similar and customary representations to this effect by Bestsport.

Trustee’s and Security Agent’s Responsibility

Neither the Trustee nor the Security Agent bears any liability or monitoring obligations in relation to ensuring or validating that upon the sale of the Small Arena or Green Island sufficient rights are retained or obligations obtained from a transferee to own, operate and maintain any property remaining subject to the Bond Security.

As more particularly set out in Condition 1(b) neither the Trustee nor the Security Agent has responsibility for examining or making any enquiry into the assets which are intended to become secured under the Bond Security and further are not obliged to monitor or take any action in relation to respect of any property matters or property transactions conducted by the Issuer, Bestsport or the Co-obligor (or any rights granted or received or which ought to have been granted or received in respect thereof).

RISK FACTORS

Prior to making an investment decision, prospective investors should carefully consider, along with other matters set forth in this Prospectus, the following factors:

Regulatory and Structural Risks

Certain payments may not be characterised as “good cause payments”

SAZKA's gaming operations are governed by the Lotteries Act and also by specific licences granted by the Ministry of Finance. At the end of each financial year, SAZKA must calculate the amount by which its revenues from gaming activities exceed the amount of prizes paid by it, administrative fees, local charges and the cost of state supervision. Pursuant to the Lotteries Act, at least 20 per cent. of this amount (the “**Part of Proceeds**”) must be distributed for social, medical, sport, environmental, cultural or other purposes beneficial to the public as “good cause payments”. See the section entitled “*Description of SAZKA — Regulation and Licensing of SAZKA's Lottery Activities*”. Due to a lack of administrative and judicial interpretation of the Lotteries Act, there is a risk that Regulated Underlying Cashflows may not be characterised as “good cause payments” by the Ministry of Finance. To address this risk with respect to the Original Bonds, SAZKA made various written submissions to and received written responses from the Ministry of Finance, which regulates the operation of lotteries in the Czech Republic, in relation to the treatment of cashflows underlying the Original Bonds as “good cause payments”.

The Ministry of Finance has been aware of the underlying structure since November 2003, when the structure was first notified to it and has not raised any issues or concerns in relation to the treatment of cash flows underlying the Original Bonds as not being “good cause payments” since that date. Furthermore, SAZKA is obliged by law to report its distribution of “good cause payments” to the Ministry of Finance, which report includes payments from SAZKA to OSZO under the Mandatory Contribution Agreement on an annual basis and the Ministry of Finance raised no issues or concerns with the report for 2004. Management believes based on written responses from the Ministry of Finance and the absence of any issues or concerns raised by the Ministry of Finance, in each case regarding the application of the Lotteries Act and the practice of the Ministry of Finance that the Regulated Underlying Cashflows will be treated as “good cause payments” in sports under the Lotteries Act and relevant lottery licences of SAZKA. The structure of the Underlying Cashflows for the Bonds replicates the underlying cashflow structure for the Original Bonds. However, the responses from the Ministry of Finance are not legally binding and there can be no assurance that due to a change in law or a change in the interpretation of existing law by binding judicial or regulatory decision or due to the current lack of administrative and judicial interpretation of the law such characterisation will remain valid. Under the Management Agreement, Bestsport will be contractually bound to operate SAZKA Arena as a sports facility in accordance with Czech law and Bestsport will pay a regular court-approved rent to OSZO. Should SAZKA Arena cease to be operated as a sports facility, either (i) as a result of Bestsport's breach of the Management Agreement, (ii) due to the Management Agreement being terminated as a result of Bestsport's bankruptcy or otherwise and no suitable substitute operator of SAZKA Arena being retained by OSZO, or (iii) for any other reason, there is a risk that the characterisation of the Regulated Underlying Cashflows as “good cause payments” in sports may be impaired. There can be no assurance that in either situation, the Ministry of Finance would treat the relevant Regulated Underlying Cashflows as “good cause payments”.

Additionally, under the provisions of the Czech Civil Code, a lessor is obligated to maintain a leased asset in usable condition at its own cost, including with respect to extraordinary repairs. It is not clear under Czech law whether parties may contract out of this obligation. OSZO shall be required under the Amended Finance Lease Agreement to bear the cost of extraordinary repairs with respect to SAZKA Arena. Should the provisions of the Management Agreement which transfer the obligation to maintain SAZKA Arena in a usable condition to Bestsport be unenforceable for this reason, this could, if material and extraordinary repairs are required to be undertaken by it, lead to the bankruptcy of OSZO. If this were to occur, the ability of SAZKA to make payments under the Conditions as “good cause payments” might be materially adversely affected.

In the event that the Regulated Underlying Cashflows will not be sufficient as to their amount, or cease to be characterised as “good cause payments” for any reason, including if SAZKA Arena is not operated as a sports facility under Czech law or a party to the various Transaction Documents fails to perform its obligations thereunder, SAZKA will still be required to make mandatory “good cause”

payments under the Lotteries Act and, SAZKA and OSZO may be unable to use the Part of Proceeds to effect payments under the Bonds. Although SAZKA's shareholders, in the Amended Priority Distribution Agreement, have agreed that the funds remaining, after the mandatory "good cause payments" have been made will be used to make payments in respect of the Bonds, if SAZKA is required to service payments in respect of the Bonds as non-"good cause payments", as well as to make mandatory "good cause payments" under the Lotteries Act, SAZKA's ability to make payments in respect of the Bonds may be materially adversely affected. If the Regulated Underlying Cashflows cease to be characterised as "good cause payments" they will cease to benefit from the exemption from corporate income taxation and may become subject to gift tax and SAZKA's ability to service payments under the Bonds may be materially adversely affected. For more detailed information on the Lotteries Act, see the sections entitled "*Relevant Czech Legal Matters*" and "*Description of SAZKA — Regulation and Licensing of SAZKA's Lottery Activities*".

Risks relating to OSZO

OSZO is organised under Czech law as a Czech civic association. Prior to the issue of the Original Bonds, civic associations (*občanská sdružení*) had not been used as financing vehicles in the Czech Republic. Czech law (including the Civic Association Act (No. 83/1990 Coll., as amended) and its interpretation and practice relating to civic associations in connection with complex financing transactions is undeveloped and without meaningful precedent. As a result, SAZKA made written submissions to the Ministry of Interior, the regulatory body governing the operation of civic associations in the Czech Republic, describing, *inter alia*, the participation of OSZO in the financing and the structure underlying the issue of the Original Bonds. The Ministry of Interior has, in written responses, stated that the activities of a civic association specified in its Articles of Association registered by the Ministry of Interior comply with the Czech legislation on civic associations and if they qualify as conducting business they are required to be conducted in compliance with general business legislation. Moreover, OSZO has not received any communication from the Ministry of the Interior since these written responses that would indicate that its activities are inconsistent with those of a Czech civic association.

The responses from the Ministry of Interior are not legally binding and there can be no assurance that, due to a change in law or a change in the interpretation of existing law by binding judicial or regulatory decision or due to the current lack of administrative and judicial interpretation of the law, the suitability of OSZO as a party to certain underlying documents and the bond documentation will not be open to regulatory challenge.

In the event of OSZO's dissolution or inability to perform its obligations under the Transaction Documents to which it is a party, the Regulated Underlying Cashflows could not be made by OSZO. Although SAZKA's shareholders, in the Amended Priority Distribution Agreement, have agreed that the funds remaining after mandatory "good cause payments" have been made, will be used to make payments in respect of the Bonds, SAZKA will also be required to make mandatory "good cause payments" under the Lotteries Act. If SAZKA is required to make payments in respect of the Bonds as non-"good cause payments", as well as to make mandatory "good cause payments" under the Lotteries Act, SAZKA's ability to service payments under the Bonds may be materially adversely affected.

Inability to attach the Part of Proceeds on enforcement

Certain assets of Czech legal entities cannot be subject to enforcement proceedings in the Czech Republic. These include:

- movables and immovables, forced sale of which would be incompatible with the principles of good morals;
- movables and immovables which a party needs for the purposes of conducting its business activity unless such movables or immovables were pledged or mortgaged as security; and
- bank account receivables the balance of which has been allocated, either in whole or in part, for a specific purpose.

Funds of SAZKA or of OSZO which constitute the Part of Proceeds held in a bank account are funds which are allocated for a specific purpose and may be incapable of being attached on an enforcement of claims in respect of the Bonds. If such interpretation was adopted by the Czech courts and the Regulated Underlying Cashflows were held not to be "good cause payments" within the meaning of the Lotteries Act, this would materially limit the ability of the Bondholders, the Trustee and/or the Security Agent to recover sums in the enforcement of claims against SASKA or OSZO, as the case may be, in respect of the Bonds.

Reliance on shareholders for the performance of the Issuer's and Co-obligor's obligations under the Bonds

Failure of the shareholders to approve the transaction

The issue of the Bonds is subject to the approval of each of the Issuer's shareholders and the Co-obligors members. There can be no assurance that such approval will be obtained prior to the Issue Date, and in such event the Bonds will not be issued.

Failure to approve the Amended Mandatory Contribution Agreement

SAZKA may not distribute profits to OSZO under the Amended Mandatory Contribution Agreement without the annual approval of its shareholders. If a shareholders' meeting of SAZKA fails to approve the payments to be made under the Amended Mandatory Contribution Agreement for other reasons, the ability of SAZKA and OSZO to service payments under the Conditions would be adversely affected.

Withdrawal of CSTV from membership in OSZO

SAZKA and OSZO are related parties under Czech law. Currently, Czech law provides that rules restricting voting by shareholders who are interested parties are suspended where all shareholders act in concert. CSTV, with an approximate 68 per cent. shareholding, has majority control of SAZKA and all shareholders of SAZKA and members of OSZO have approved the terms of the underlying transactions to which they are party. If SAZKA changes its shareholders or OSZO its members, related party voting will not remain unanimously agreed and CSTV would be unable to approve distributions under the Amended Priority Distribution Agreement. In this event, CSTV will be excluded from voting in a general meeting of SAZKA on the approval of "good cause distributions". To avoid this risk, CSTV has executed the Amended CSTV Cooperation Agreement has therefore been executed to require CSTV, should persons or entities that are not members of OSZO become shareholders of SAZKA, to resign its membership of OSZO prior to voting at any general meeting of SAZKA that is convened to vote in favour of approving "good cause distributions" to OSZO that are required under the Amended Mandatory Contribution Agreement. If CSTV subsequently became a member of OSZO whilst the Bonds were outstanding, the Czech courts could interpret CSTV's original resignation from OSZO as an artificial legal act to circumvent certain Czech laws prohibiting the exercise of voting rights in a joint-stock company. In this event, the resolution of SAZKA's general meeting, approving the distribution of Part of Proceeds, could be challenged. The ability of parties to the Amended CSTV Cooperation Agreement to contract out of usual termination provisions under Czech law may also be limited by law. A successful challenge of the resolution of SAZKA's general meeting approving the distribution of Part of Proceeds, or a significant limitation to effectively contract out of the usual termination provisions of Czech law in the Amended CSTV Cooperation Agreement, could have a material adverse effect on the SAZKA's ability to service payments under the Bonds in a timely manner, or at all. For other risks related to CSTV as a controlling shareholder see "*— Risks Relating to SAZKA's Business — Control of SAZKA by CSTV*".

Tax risks

Thin capitalisation

Due to the relationship between SAZKA and Bestsport, a significant part of the interest paid by Bestsport to SAZKA under the Loan Agreement may be subject to the application of "thin capitalisation" rules. Thin capitalisation rules impose restrictions on the deductibility of interest for corporate income tax purposes in a situation where the debtor's equity is relatively small in relation to his debt owed to related parties. In such a situation, Bestsport, as debtor, may not be allowed to get a tax deduction for a significant part of the interest paid under the Loan Agreement.

Transfer pricing

Some of the transactions governed by the underlying documents may be subject to Czech transfer pricing rules. Czech transfer pricing legislation provides that if prices set between related parties differ from the prices that would have been set between unrelated parties acting independently, the tax authorities will adjust the prices for tax purposes by the ascertained difference. Despite the fact that the Loan Agreement has been entered into on the basis of expert valuations, if any such transaction is determined not to have been concluded on an arm's length basis, this could lead to an increase in certain liabilities for the parties thereto.

Taxation of non-monetary benefits

Certain Transaction Documents including the Amended Priority Distribution Agreement the Amended Mandatory Contribution Agreement, the Amended CSTV Cooperation Agreement and the co-obligorship of OSZO under the Bonds provide for obligations to be created for no consideration. These Transaction Documents may be regarded as granting non-monetary benefit to the parties to them and as such be subject to income tax, gift tax and/or VAT, which would represent an additional liability for the Underlying Cashflows to meet.

Changes to tax legislation

Czech tax legislation and its interpretation are subject to frequent amendments and changes which may significantly affect the tax treatment of the Underlying Cashflows and adversely affect SAZKA's and/or OSZO's ability to service payments under the Conditions. For example, since 1 January 2005 SAZKA can no longer claim VAT on expenses incurred in relation to its betting and lottery activities.

Any additional tax liabilities resulting from the risks described above could subsequently adversely affect the ability of SAZKA and OSZO to meet their obligations under the Conditions and the Trust Deed.

Liability of SAZKA for Bestsport's liabilities

On 20 April 2001, SAZKA and its then wholly owned subsidiary, Bestsport, executed a control agreement (the "**Control Agreement**") whereby SAZKA's Board of Directors was granted a right to issue binding instructions to Bestsport as a controlled subsidiary of SAZKA. In exercising this right, the Board of Directors were, pursuant to the Czech Commercial Code, obliged to proceed with due managerial care. Pursuant to the Control Agreement, on 24 October 2002, SAZKA's Board of Directors instructed Bestsport to build SAZKA Arena. Should it be determined that in making this instruction SAZKA's Board of Directors did not exercise due managerial care, the members of SAZKA's Board of Directors will be liable for any damage caused to Bestsport, and SAZKA would guarantee the residual liability of the Board of Directors under Czech law. If there is held to be a lack of due managerial care by SAZKA's Board of Directors and Bestsport consequently becomes insolvent, the members of SAZKA's Board of Directors and SAZKA will have the same obligations with respect to the damage caused to Bestsport's creditors, to the extent their claims are unsatisfied against Bestsport.

The Control Agreement was terminated in the context of the transfer of a controlling interest in Bestsport from SAZKA to OSZO on 23 October 2003. While the termination of the Control Agreement was effective from 1 January 2004, it is arguable under Czech law that SAZKA will remain liable for any obligations of Bestsport that arose as a result of any "control instructions" given to Bestsport by SAZKA prior to 1 January 2004. Because control person liability is a new concept under Czech law and is, as yet, untested by the Czech courts, the extent to which SAZKA bears any such losses is unclear. In the event that such liability is found to exist, it will at least extend to the consequences of the construction of SAZKA Arena by Bestsport. In the event that Bestsport suffers significant loss as a result of such control instructions, SAZKA will be held liable for Bestsport's liabilities, which may have a material adverse effect on SAZKA's ability to service payments under the Conditions.

Change of law

The structure of the issue of the Bonds, the Bond Documents and the Transaction Documents are based on English and Czech laws in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or changes to English or Czech laws, the interpretation thereof or administrative practice after the date of this Prospectus.

The interpretation of certain provisions of Czech law, in particular commercial, financial and bankruptcy laws, is not well established due to little precedent upon which to rely in rendering an opinion as to sophisticated commercial and financial transactions between private parties. Furthermore, these laws are subject to change in fact and in interpretation in a manner which cannot be currently foreseen and anticipated, and which may affect the rights and obligations arising in connection with the transaction.

Impact of insolvency upon obligations under the Transaction Documents and Bond Documents

The ability of SAZKA, OSZO and Bestsport to enter into or perform their obligations under the Transaction Documents and Bond Documents would be materially adversely affected in the event that

these entities should currently be or become insolvent or should their obligations due exceed the value of their assets (including expected future revenues). In any of these events, SAZKA's, OSZO's, or Bestsport's entry into, or the performance of obligations under, certain of the Transaction Documents and Bond Documents could attract criminal liability in the Czech Republic and would prevent these entities from making payments pursuant to the Transaction Documents and Bond Documents. This could materially adversely affect the ability of SAZKA and OSZO to service payments under the Conditions.

Risks Relating to SAZKA's Business

Loss of licences

For the year ended 31 December 2005, licensed games generated approximately 84 per cent. of SAZKA's total revenues. A significant proportion of SAZKA's licences are granted for either an indefinite or for significant periods of time. While management believes that SAZKA's relationship with the Ministry of Finance is good, SAZKA is heavily dependent upon maintaining and, where necessary, renewing operating licences. SAZKA is, therefore, subject to the risk that the Ministry of Finance may refuse such maintenance or renewal and may revoke its lottery licences. The Ministry of Finance may, however, do so only in the event that SAZKA (i) fails to meet the statutory conditions for the maintenance or renewal of its licences, (ii) fails to meet its obligations under the relevant licence, (iii) does not adhere to the conditions of the relevant lottery or other similar game provided in the relevant licence or amendment, or (iv) fails to meet its obligations under the Lotteries Act. In addition, SAZKA may lose its licences as a result of using the Part of Proceeds to effect payments to Bondholders or otherwise that do not constitute "good cause payments". For a description of this risk, see the section entitled "*— Regulatory Risks — Certain payments may not be characterised as 'good cause' payments*". In addition, the Ministry of Finance may at any time modify any of SAZKA's lottery licences if so required by (i) the due operation of the relevant lottery or other similar game or (ii) the public interest. While SAZKA will strenuously resist any regulatory challenge to its licences and will challenge any refusal of the Ministry of Finance to issue new licences, to the extent that SAZKA is unsuccessful, its failure to successfully resist a regulatory challenge of SAZKA's licences or to maintain, obtain or renew the same could negatively impact its ability to generate revenues, which could restrict SAZKA's ability to service payments under the Bonds. For a detailed description of SAZKA's licences, see "*Description of SAZKA — SAZKA's Licences for the operation of games and lotteries*".

Control of SAZKA by CSTV

CSTV owns approximately 68 per cent. of the share capital of SAZKA and consequently has the ability to control most matters to be decided by a vote of a general meeting of SAZKA's shareholders (subject to certain minority protection provisions in the Articles of Association and under Czech law), including, among other items, the recipients of "good cause payments" distributed by SAZKA and amendments to SAZKA's Articles of Association. CSTV has agreed to act so as to enable the servicing of the Bonds in the Amended Priority Distribution Agreement. However, in the event that distributions cannot be made under the Amended Mandatory Contribution Agreement due to a failure by CSTV to approve them on an annual basis as requested under Czech law, and in the event that SAZKA fails to enforce effectively CSTV (or a subsequent shareholder's) obligations under the Amended Priority Distribution Agreement, SAZKA will not be able to use the "good cause payments" to pay amounts due in respect of the Bonds. As CSTV receives significant "good cause payments" from SAZKA, such action would significantly prejudice CSTV's receipt of such funds and ability to conduct its activities in the future. However, there can be no assurance that CSTV will not take this or any other action that conflicts with Bondholders' interests. In addition, if as a result of actions by CSTV, payments cannot be made to OSZO due to a breach by CSTV's and SAZKA's failure to enforce effectively the shareholders' obligations, SAZKA will not be able to use the "good cause payments" to service payments under the Conditions and the Trust Deed. See the section entitled "*Regulatory and Structural Risks — Certain payments may not be characterised as 'good cause' payments*".

Dependence upon two number lotteries for significant revenue

Two of SAZKA's most popular number lotteries, *Sportka* and *Šťastných 10*, accounted for approximately 83.95 per cent. of its revenues from gaming activities and 70.80 per cent. of its total revenues for the year ended 31 December 2005. SAZKA is currently diversifying its portfolio of gaming activities by expanding in growing market segments such as interactive video terminal-based betting.

Management believes that increased growth in these new market segments will help reduce SAZKA's reliance on a limited number of number lotteries to generate revenues in the future. In addition, the number of participants in SAZKA's two most popular number lotteries has been stable over the last four years. However, in the event that the popularity of these two popular number lotteries should decline significantly and viable alternatives that generate sufficient revenue are not established, SAZKA's revenues could be materially adversely affected and its ability to service payments under the Bonds be materially adversely affected.

Risk of network failures and network security vulnerabilities

SAZKA's ability to operate its games successfully is based on:

- the capacity and reliability of the network of its 7072 online sales point terminals, which SAZKA operates via an online system operated by GTECH, and
- the security of its computer networking hardware, software and telecommunications infrastructure.

SAZKA currently secures its network by means of back-up hardware and other measures. Any systems interruption that resulted in reduced levels of gaming services for SAZKA's customers could lead to a reduction in performance or a temporary loss of services. Although SAZKA could operate an offline system of data collection in the event of an extended online systems failure, SAZKA might not be able to effectively implement a backup for its systems for a prolonged period of time. From time to time, SAZKA upgrades its technology and network infrastructure. If SAZKA does not implement such upgrades successfully, or if SAZKA experiences inefficiencies and operational failures during such implementation, the quality of its products and services could decline which would damage SAZKA's reputation and may lead to the loss of current and potential customers. Whilst SAZKA carries insurance cover of CZK 137 million (€4,723,324) for losses arising from operational network failures, recoverability of such sums may be limited.

In addition, SAZKA's systems may be vulnerable to damage or interruption caused by human error, network failure, a natural disaster, sabotage, computer viruses and similar disruptive events. A breach of network security could result in reduced revenues, which could have an adverse effect on SAZKA's business, financial condition, results of operations and ability to service payments under the Conditions.

Reliance on its network of agents to operate terminals

SAZKA accepts betting stakes from bettors through authorised sales point terminals. The responsibilities of the operators of sales points, which must enter into a dealership contract with SAZKA, include the acceptance of betting stakes from customers, the pay-out of minor prizes, the provision of information to customers, sales support, and the settlement of complaints and claims. At 31 December 2005, SAZKA had 3,404 agents throughout the Czech Republic. Although SAZKA believes that its relationship with its agents is generally good, there can be no assurance that favourable relations will continue in the future. Although SAZKA's agent base is highly fragmented, with the largest single agent being the Czech Post Office, operating 2,628 outlets (or 38 per cent. of its total agent outlets), if its agents decided to engage in collective action against it, SAZKA could face disruptions in the operation of its games, which could have an adverse effect on its business, financial condition, results of operations and its ability to make payments under the Bonds.

Supervision of the Czech Office for the Protection of Economic Competition

Under European Union ("EU") and Czech competition law principles, companies which enjoy a dominant position on a market are considered to have a special responsibility not to allow their conduct to impair undistorted competition on the market concerned. SAZKA has been investigated for alleged abuse of dominant position in relation to the exploitation by SAZKA of its market power to impose unfair contract terms upon its distributors in the number lotteries and instant lotteries market segments. As a result of this investigation SAZKA was fined CZK 1,200,000 (€41,372). Fines levied against SAZKA are not legally capable of being paid as "good cause payments". Further fines, together with a failure to characterise the Regulated Underlying Cashflows as "good cause payments", could impair SAZKA's ability to make payments in respect of the Original Bonds. For a description of SAZKA's procurement agreements, see the section "*Description of SAZKA — Relationships with Dealers*". Further, it cannot be excluded that SAZKA may be subject to challenges in the future based on the alleged abuse of a dominant position and failure to comply with the decision of the Czech Office for the Protection of Economic Competition.

Macroeconomic and legislative change

The Czech Republic acceded to full membership of the EU on 1 May 2004. It is also expected that the euro will be introduced in the Czech Republic in 2010 at the earliest. The impact of these macroeconomic and potential legislative changes may impact SAZKA's business and results of operations in a number of ways including:

Impact on customer base

SAZKA is preparing for the eventual introduction of euro and price convergence with other Member States, and it aims to gradually increase the prices of its games so as to achieve the European average of one euro per bet. Gradual increases are expected to be spread over the next several years and will be linked to trends of nominal wages and purchasing power of average households. Most of SAZKA's business relies on the ability of consumers to spend discretionary income on leisure activities and SAZKA's products. Should these and other factors differ from what is anticipated under SAZKA's current business plan, this may affect SAZKA's forecast revenues.

Changes to Czech lottery laws

Currently, the Lotteries Act is to a large extent harmonised with EU legal principles, which recognise the competence of the Member States to place restrictions on the operation of lotteries for reasons relating to the public interest, such as fraud and crime prevention, the protection of public morality and the financing of public interest activities. The Lotteries Act nonetheless prevents, with minor exceptions, a foreign entity, any domestic legal entity with foreign capital participation or any entity which is directly or indirectly controlled by a foreign entity from operating a lottery in the Czech Republic. This effectively bars all foreign operators from entering the Czech lottery market.

Following the accession of the Czech Republic to the EU, the restriction on foreign competition that existed prior to accession may be found incompatible with the EU principles of free movement of goods, services and capital. The European Court of Justice has, in several cases, dealt with the applicability of Articles 43 and 49 of the Treaty establishing the European Community, as amended (setting out principles of freedom of establishment and freedom to provide services) to the lottery business. In its decisions in cases such *Anomar* and *Schindler, Läära, Zenatti*, the Court of Justice reached the conclusion that the Treaty provisions relating to the freedom to provide services and the freedom of establishment do not preclude national legislation restricting such freedom in view of concerns of social policy and of the prevention of fraud, as well as of the general public interest. Under certain conditions, Member States may thus limit or even ban lotteries in their respective jurisdictions. A more recent judgment in *Gambelli* has nevertheless clarified that restrictions based on the general public interest and on the need to preserve public order must also be suitable for achieving those objectives, inasmuch as they must serve to limit betting activities in a consistent and systematic manner. In any case, the restrictions imposed by national legislation must not be discriminatory on grounds of nationality and must be proportionate to the objective of the Treaty.

In January 2004, the European Commission published the draft EU Directive on Services in the Internal Market (the “**Directive on Services**”) to facilitate the free flow of services in the European Union. The purpose of the Directive on Services is to remove legal and administrative barriers in order to allow businesses established in one EU Member State to offer their services in another EU Member State. On 16 February 2006, the European Parliament voted with a clear majority to exclude all gaming activities from the scope of the Directive on Services. It is envisaged that the European Commission will publish a revised draft of the Directive on Services later this year which will incorporate the amendments requested by the European Parliament.

Any changes in the Lotteries Act that results in increased competition in the Czech gaming market may have a material adverse impact on the business and results of operations of SAZKA, which may in turn affect its ability to make payments under the Conditions.

The information in this Prospectus is based on Czech law, tax and administrative practice in effect at the date hereof, and having due regard to the expected tax and regulatory treatment of all relevant entities under such law and practice. No assurance can be given as to any changes to Czech law, tax or administrative practice, or any possible change to EU law, tax or administrative practice, or to the effect such changes may have on SAZKA's business as a result, and consequently its ability to service payments under the Conditions in a timely manner.

Risks Relating to SAZKA Arena

Uncertain operating performance of SAZKA Arena

SAZKA Arena is currently used primarily as a sports facility. Currently, operating revenues are lower than expected for events and associated activities held at SAZKA Arena. SAZKA Arena is also currently operating at a loss. There can be no assurance that operation of SAZKA Arena will generate net profit in the future. In the event that poor operating performance leads to the closure of the SAZKA Arena, it is possible that the Part of Proceeds received by OSZO from SAZKA under the Amended Mandatory Contribution Agreement to discharge its obligations under the Bonds could fail to be characterised “good cause payments” because SAZKA Arena is no longer used primarily as a sports facility. As a result, SAZKA’s ability to service payment under the Conditions may be materially adversely affected. See the section entitled “*Structural Risks — Certain payments may not be characterised as ‘good cause’ payments*”. In addition, in the event that SAZKA Arena is closed, the value of the charged property on enforcement of the Arena Mortgage may also be adversely affected. For a discussion of factors affecting the Charged Property’s ability to satisfy outstanding payment obligations under the Bonds see “— *Risks Related to the Bonds — Insufficiency of the Charged Property to satisfy outstanding payment obligations under the Bonds*”.

Risks Relating to the Bonds

Covenants in the Conditions do not relate to the Issuer’s subsidiaries

The contribution of the Issuer’s subsidiaries as at 31 December 2005, the date of the Issuer’s most recent audited consolidated financial statements to the Issuer’s consolidated net assets, revenues and total liabilities were, in aggregate, less than 5 per cent. In addition, Bestsport currently has no subsidiaries and the Co-obligor may only maintain Bestsport as a subsidiary under the terms of the Trust Deed. To date, all borrowings by the Issuer’s subsidiaries have been guaranteed by the Issuer, are reflected in the annual financial statements of the Issuer as off-balance sheet liabilities and are taken in account when calculating amounts of indebtedness the Issuer may incur under the covenant in the Conditions restricting the Issuer from incurring future debt. The Issuer, the Co-obligor and Bestsport are bound in the Conditions by certain covenants that are, amongst other things, intended to maintain the credit quality of the Issuer’s consolidated group. These covenants include restrictions on the ability of the Issuer, the Co-obligor and Bestsport to incur indebtedness, dispose of assets, make a dividend or distribution and/or make certain capital expenditures. These credit maintenance covenants contain certain threshold amounts for the incurrence of, for example, indebtedness, and provisions that restrict asset sales. As in the case of the Original Bonds, current and future subsidiaries of each of the Issuer, the Co-obligor and Bestsport are not directly bound by the provisions of the Condition and compliance with certain of these thresholds are not determined on a consolidated basis.

Non-recourse and non-guaranteed payment obligations

The Bonds are limited recourse obligations of OSZO and, should OSZO become insolvent, amounts due on the Bonds may only be paid to the extent that there are sufficient funds of OSZO received from SAZKA which have not been used by OSZO in settlement of its financial liabilities in respect of the Bonds. It should be noted that it will be difficult for the Trustee or the Security Agent to ascertain the amount of funds as such funds are not secured in favour of either party and no independent party will track the flow of funds. Accordingly the liability of OSZO on enforcement may be uncertain and this may prevent successful enforcement proceedings against OSZO. Neither the Security Agent nor the Trustee shall have any liability in this regard. Neither the Security Agent nor the Trustee is required to take any action to establish such amounts although it may rely on a certificate from OSZO as to the extent of such funds to the extent one is provided to it. The Bonds will not be obligations or responsibilities of, and will not be guaranteed by, the Czech Republic. No entity, other than SAZKA or OSZO, will accept any liability to Bondholders in respect of any failure to pay any amount due in respect of the Bonds. The ability of SAZKA and OSZO to meet their obligations in respect of the Bonds will be dependent on the revenues and, in the event that the Regulated Underlying Cashflows are not characterised as “good cause payments”, SAZKA’s profits of SAZKA at the end of each year. SAZKA’s and OSZO’s ability to meet their respective obligations under the Conditions will therefore depend on SAZKA’s continued ability of SAZKA to generate revenues and net profit.

Enforceability

It is unclear under Czech law whether a Czech court would recognise enforcement proceedings undertaken by the Trustee or the Security Agent on behalf of the Bondholders. The Czech Republic is

not a signatory to the Hague Trust Convention 1984, which provides for the recognition of trusts and claims by trustees. Although a direct liability has been created in favour of the Security Agent under the Trust Deed, such a provision has not previously been tested under Czech law, and it is not clear whether such an obligation is an enforceable obligation for the Security Agent under the Trust Deed, both in respect of secured claims under the Bond Security or otherwise. The structure is relatively sophisticated, and has never been examined by a Czech court. Consequently, there can be no assurance that either the Trustee or the Security Agent will have an enforceable claim in the Czech courts under the Conditions. In addition, it is uncertain as to how this obligation will be treated for tax purposes. To the extent that any withholding or deduction is required on payments under such obligation, the Issuer and Co-obligor are required to gross up such payments as referenced in Condition 8 (*Taxation*) of the Bonds.

The Bond Security

Registration

Although the Mortgages will be filed on the Issue Date, under Czech law a mortgage does not become enforceable against third parties until it is recorded in the Czech Cadastral Registry. The recording process can take from several weeks to several months from initial filing. Consequently, the Mortgages will not be effective for the benefit of the Bondholders unless and until they are registered by the Czech Cadastral Registry. A successful registration will depend on the staff of the Czech Cadastral Registry approving the same for registration in a timely manner, and it is possible that the Cadastral Office may find shortcomings in the Mortgages and reject their registration. In addition, Czech law provides that in the event of a mortgagor's bankruptcy, all mortgages registered within two months prior to the day when the relevant bankruptcy petition was filed with the bankruptcy court (even if such mortgages were granted in exchange for consideration) are void. Consequently, should SAZKA, Bestsport or OSZO be declared bankrupt before the expiry of this time period, the Head Office Mortgage, the Arena Mortgage and the Arena Land Mortgage, as the case may be, would cease to exist. For a more detailed description of mortgages over real property in the Czech Republic see the section entitled "*Relevant Czech Legal Matters — Insolvency Law in the Czech Republic*".

In addition, until registration of the Arena Land Mortgage, the Security Agent will not be able to participate in enforcement proceedings relating to the Arena Land initiated by holders of the Senior Liens.

In the event that a third-party security interest is granted before a Mortgage is validly registered, the Security Agent will have no priority over such third party's security in respect of whatever security interest has been subsequently created and will only hold an unsecured contractual claim against the relevant party that granted such security under the Trust Deed.

Under the terms of the Trust Deed, if the Security Agent resigns or is replaced, the outgoing Security Agent is required to assign the parallel debt owed to it to the incoming security agent. Such assignment of the debt should also be recorded with the Czech Cadastral Registry. Although under Czech law a mortgage or pledge passes to the assignee of secured obligations (*i.e.*, of the parallel debt) by operation of law, the new security agent might face practical difficulties when enforcing the Mortgages until such assignment is registered with the Czech Cadastral Registry. Further, to the extent that the registration of a Mortgage Agreement at the Cadastral Registry is not yet complete, the additional registration of such a debt assignment may result in an incremental delay in registration with the Cadastral Registry.

Existence of encumbrances relating to Arena Land

The Issuer, the Co-obligor and Bestsport have each covenanted to secure the obligations of the Issuer in relation to the Bonds pursuant to, among other security, a mortgage over the Arena Land. The Arena Land is currently subject to the Senior Liens in respect of unpaid taxes due from Quonex, the previous owner of the Arena Land and from which the Arena Land was transferred as part of a settlement agreement following a dispute between SAZKA and Quonex. The Senior Liens will rank senior to any rights of the Trustee, the Security Agent and/or the Bondholders in respect of the Arena Land. Under Czech law, the tax authorities with a registered tax lien in respect of a property have the right to force the sale of such property in a public auction or a court administered sale. If such auction or sale were to occur, the Trustee, the Security Agent and/or the Bondholders will only have the right to the proceeds of such auction or sale after the tax liabilities secured by the Senior Liens were satisfied in full. Conversely, if the Security Agent commenced enforcement under the Arena Land Mortgage, the claims of the holders of

the Senior Liens would have to be satisfied before distributing enforcement proceeds to Bondholders. There is no guarantee in either case that any such auction or sale will achieve the market value of the Arena Land at the time of such auction or sale.

If enforcement proceedings to enforce any of the Senior Liens are commenced, SAZKA will immediately pay the relevant liabilities of Quonex in respect of the Senior Liens being enforced and make any other payments and take any other actions and steps as may be necessary, or as the Trustee and/or Security Agent may require, to terminate the Senior Liens and to prevent the forced sale of the Arena Land (including, without limitation, in a court sale or out-of-court public auction).

Should Quonex be declared bankrupt or an analogous event occurs in relation to Quonex, SAZKA will immediately pay an amount equal to the liabilities secured by the Senior Liens to the bankruptcy trustee in favour of the bankruptcy estate of Quonex and make any other payments and take any other actions and steps as may be necessary, or as the Trustee and/or Security Agent may require, in order to terminate the Senior Liens and to prevent: (i) the inclusion of the Arena Land into the bankruptcy estate of Quonex, and (ii) the forced sale of the Arena Land.

If an Event of Default or Potential Event of Default occurs in relation to the Issuer or Bestsport, SAZKA will immediately pay the relevant liabilities of Quonex owed in respect of the relevant Tax Mortgage being enforced and make any other payments and take any other actions and steps as may be necessary, or as the Trustee and/or Security Agent may require, to prevent the forced sale of the Arena Land (including, without limitation, in a court sale or out-of-court public auction) and to terminate the Senior Liens.

Further, under Czech law, the Issuer may, at any time prior to completion of the public auction or court administered sale, pay an amount corresponding to the tax debt owed to the tax authorities to prevent such auction or sale taking place. Consequently, management believes that should such an auction or sale become imminent, the Issuer may elect to pay approximately CZK 30 million (€1,034,304) and interest and tax liens of approximately CZK 56 million (€1,930,702) to the tax authorities to satisfy such liabilities in order to prevent such action or sale of the Arena Land. Management is also undertaking steps to seek to make Quonex pay its outstanding obligations to the tax authorities, although there can be no assurance that these steps will be successful.

See the section entitled “*Description of SAZKA — Legal Proceedings*” for more information on the settlement of the dispute with Quonex.

Insufficiency of the Charged Property to satisfy outstanding payment obligations under the Bonds

To the extent that the Bond Security is validly created, should an event of default occur under the Conditions and enforcement proceedings be undertaken to sell the Charged Property, the proceeds from such sale may not be sufficient to satisfy the obligations under the Bonds. The value of the Charged Property and the amount to be received upon a sale of such Charged Property will depend upon many factors, including, among others, the condition of the Charged Property, the ability to sell the Charged Property in an ordinary sale, the condition of international, national and local economies, the availability of buyers for the Charged Property and in the case of the Arena Land, the amount the Senior Liens are securing. The book value of the Charged Property should not be relied upon as a measure of the realisable value for such assets. By their nature, significant elements of the Charged Property will have a limited range of potential purchasers and no readily ascertainable market value. In addition, under Czech law, in the event of bankruptcy of SAZKA, the satisfaction of secured claims from the sale of the Charged Property will be limited to 70 per cent. of the proceeds of sale, less court, valuation and other associated fees.

The Charged Property is located in the Czech Republic, and the jurisdictional nature of enforcement of the Bond Security may limit the realisable value of the Charged Property. To the extent that holders of other secured indebtedness or third parties enjoy liens, including statutory liens, whether or not permitted by the Trust Deed or the Bond Security, such holders or third parties may have rights and remedies with respect to the Charged Property which, if exercised, could reduce the proceeds available to satisfy SAZKA’s and OSZO’s obligations under the Bonds. This is especially true in relation to the holders of the CZK 86 million (€2,965,006) of Senior Liens.

Under Czech law, a mortgage disappears upon the complete destruction of the mortgaged property. In addition, the relevant Czech law protects from enforcement proceedings any insurance proceeds payable to the debtor by an insurance company under an insurance policy where the compensation is to

be used for the new construction of a building or its reconstruction. Under Czech law, mortgagees do not have a right to the use of, or the right to direct the use of, insurance proceeds. It is also doubtful whether such receivables may be capable of being validly assigned or mortgaged. The Trust Deed does not contemplate any security being granted over or assignment of insurance proceeds or any other right concerning insurance proceeds being given in relation to the Charged Property nor any ability on the part of the Security Agent to direct or approve the payment of the insurance proceeds.

Prospective investors should therefore be aware that losses in respect of the Charged Property for reason of insurance events could result in the Security Agent having no security either over the mortgaged property or any replacement property and no security over, recourse to or ability to direct the payment of, any insurance proceeds in respect of a mortgaged property.

Easements and Rights affecting SAZKA Arena

As the Operational Easement is non-assignable by Bestsport, if SAZKA Arena is to be sold (including, without limitation, in an enforcement sale by the Security Agent), a prospective buyer will not hold the benefit of the Operational Easement. A subsequent owner of SAZKA Arena may request that the then current owner of the Arena Land grant a new operational easement to it, and if this is refused, the transferee of SAZKA Arena may apply to the Czech court for the grant of an easement of necessity for access to SAZKA Arena. This may, at the discretion of the Czech court, be granted in exchange for an amount payable to the owner of the Arena Land as determined by such court. Such easement may not be granted on reasonable commercial terms, or at all. If the transferee was also to own the Arena Land, which on an enforcement of the Bond Security, is possible, the grant of a replacement easement would be within its own power. The Czech court also has the power to order that SAZKA Arena is transferred to the owner of the Arena Land for market value, but management do not believe a Czech court will make such an order in practice considering the significant difference in market value between SAZKA Arena and the Arena Land.

Other circumstances, aside from sales to third parties, may result in the Arena Land and SAZKA Arena subsequently being owned by unconnected parties. This may occur, for example, in the case of either property where an unsecured creditor of the relevant owner who has an execution title against such owner (such as, for example, a court judgement or an enforcement agreement), initiates successful court execution proceedings against the assets of such party by forced sale of the relevant land to satisfy its claims (notwithstanding such creditor ranking behind, *inter alia*, secured creditors as regards distribution of proceeds of the sale of the assets sold in the execution proceedings). The terms of the Operational Easement relate only to access to and operation of SAZKA Arena and there are no provisions of Czech law that explicitly entitle the owner of SAZKA Arena to an easement of necessity in respect of the Arena Land should the Operational Easement cease to exist. Therefore, there is a risk that the owner of SAZKA Arena could be required by a court order to remove SAZKA Arena from the Arena Land should the Operational Easement cease to exist. Given the difference between the value of SAZKA Arena and the Arena Land and, given the good causes for which SAZKA Arena is likely to serve, SAZKA's management believe that the risk that a court would order such an extreme measure is remote. Further, upon the change of ownership of the Arena Land, the Operational Easement will not cease to exist. Any future owner of the Arena Land will be bound by the Operational Easement and Bestsport's rights arising out of the Operational Easement. This fact may have a significant negative effect on the saleability of the Arena Land in a situation when enforcement of the Arena Land Mortgage may need to be initiated by the Security Agent. Investors should be aware that non-assignability of the Operational Easement may affect the saleability and/or market value of SAZKA Arena and/or Arena Land in the event that the effect of such non-assignability cannot be mitigated. However, in the event that SAZKA Arena is rendered inoperable as a sports facility, despite OSZO's ability to recover sums under business interruption insurance, this may result in a failure to characterise the Regulated Underlying Cashflows as "good cause payments". For a description of the risks upon such failure, see "*— Regulatory Risks — Certain payments may not be characterised as 'good cause' payments*".

Effect of intermediate bankruptcy proceedings on enforcement

Bankruptcy laws in the Czech Republic could prevent the Security Agent forcing a sale of the Charged Property upon acceleration of the Bonds and the Trust Deed if a bankruptcy proceeding is commenced with respect to SAZKA, OSZO or Bestsport before Charged Property is sold and such sale registered by the Czech Cadastral Office. It is impossible to predict how long payments under the Bonds could be delayed following commencement of a bankruptcy case, whether or when the Security Agent

could enforce the sale of the Charged Property or whether or to what extent the Security Agent would be compensated out of the enforcement proceeds for any delay in payment or loss of value of the Charged Property upon enforcement of the Bond Security.

Dependence of the SAZKA Arena on certain land and on the Small Arena for due access and operation

The Operational Easement gives Bestsport the right to locate and use the West Tunnel for access to the Underground Parking, the East Tunnel for access to the Underground Facilities as well as the Underground Facilities and the Underground Parking under the land currently owned by SAZKA. Further, each of the West Tunnel, the East Tunnel, the Underground Parking and the Underground Facilities are partially located under the Small Arena. Should the ownership of the SAZKA Arena be transferred, either as a result of an enforcement sale or otherwise, the new owner of the SAZKA Arena will not benefit from the Operational Easement and would be required by the future owner of the land under which the East Tunnel and/or West Tunnel passes (be it SAZKA or any other future owner) to agree on a right to use the East Tunnel and/or the West Tunnel and/or the Underground Facilities and/or the Underground Parking, as applicable. Failure to obtain suitable rights to operate SAZKA Arena could materially and adversely impact the value of SAZKA Arena and therefore the Bond Security. For a more detailed description of these risks, see “*Description of Certain Underlying Transactions — The Bond Security — Description of the Charged Property — SAZKA Arena*”.

Currency exposure and discrepancy between payments pursuant to certain of the Transaction Documents

SAZKA’s revenues are denominated in Czech korunas, and it publishes its financial statements in Czech korunas. The Bonds are denominated in euro, and the aggregate principal amount of, and the interest due on, the Bonds will be payable by SAZKA in euro. SAZKA’s payments under the Amended Mandatory Contribution Agreement, and Bestsport’s payments under the Loan Agreement will be denominated in Czech korunas. For a more detailed description of these cashflows, see “*Description of Certain Underlying Transactions — Description of Underlying Cashflows Regarding Payments under the Conditions of the Bonds*”.

SAZKA’s and OSZO’s ability to pay principal and interest due on the Bonds will therefore be influenced by future fluctuations in exchange rates between the euro and the Czech koruna. Management is confident that in order to mitigate this foreign exchange exposure, SAZKA will be able to enter into appropriate currency hedging arrangements. However, there can be no assurance that such hedging arrangements can be obtained with a suitable counterparty, on reasonable commercial terms, or at all. Unless suitable hedging arrangements are entered into by SAZKA, it will be exposed to the risk that the Czech koruna amounts it receives under certain of the Transaction Documents will be insufficient to meet its euro denominated repayment obligations in respect of the Bonds. In addition, if SAZKA is successful in entering into such arrangements, it will be exposed to counterparty risk in the event that its respective counterparty fails to perform its obligations under the arrangements. There can be no assurance that present or future management of foreign exchange risk is or will be adequate or that exchange rate fluctuations will not have a material adverse effect on the ability of SAZKA and OSZO to make payments under the Conditions.

Inability of put option obligations to prevent certain shareholder corporate events

Whilst the Conditions allow the Issuer and the Co-obligor to repurchase the Bonds upon a change of control of SAZKA certain corporate events affecting the Issuer’s shareholders do not require that the Issuer purchase or redeem the Bonds. For example, in the event of a takeover, recapitalisation or similar transaction such a repurchase obligation would not arise. In addition, shareholders may enter into certain transactions, including acquisitions, refinancing or other recapitalisations, that could affect their ability to perform their obligations under the Amended Priority Distribution Agreement, and, in the case of CSTV, the Amended CSTV Cooperation Agreement. As a result, breach of these agreements could adversely affect the ability of the Issuer and the Co-obligor to make payments under the Conditions or the Trust Deed as “good cause payments” or otherwise.

Inability of the Issuer or the Co-obligor to satisfy put option obligations

The occurrence of a Change of Control of SAZKA may result in a default under instruments governing other indebtedness of the Issuer and give the lenders thereunder the right to require the Issuer or the Co-obligor to repay all outstanding obligations thereunder. In the event that the Issuer’s or the

Co-obligor's obligation to purchase the Bonds following a Change of Control occurs at a time when the Issuer or the Co-obligor lacks sufficient funds to repurchase the Bonds or is prohibited from purchasing the Bonds under instruments governing other indebtedness (and the Issuer or the Co-obligor is unable to obtain the consent of the holders of such indebtedness or to prepay such indebtedness), an Event of Default (as defined in the Trust Deed) would occur under the Trust Deed. If the Bonds are subsequently accelerated in such circumstances neither the Issuer nor the Co-obligor may have sufficient funds to make payments under the Conditions.

The risks described above are the main risks inherent in the transaction for Bondholders, but the inability of SAZKA or OSZO to pay interest or repay principal on the Bonds may occur for other reasons and neither of them represents that the above statements of the risks of holding the Bonds are exhaustive. While the various structural elements described in this Prospectus are intended to lessen some of these risks for Bondholders, there can be no assurance that these measures will be sufficient or effective to ensure payment of interest or principal to the Bondholders on a timely basis or at all.

TERMS AND CONDITIONS OF THE BONDS

The following (except for the paragraphs in italics) is the text of the Conditions of the Bonds which (subject to completion and amendment) will be endorsed on each Bond in definitive form:

The €215,000,000 9.00 per cent. Secured Amortising Bonds due 2021 (the “**Bonds**”) of SAZKA, a.s. (the “**Issuer**”) are constituted by a Trust Deed dated 12 July 2006 (the “**Issue Date**”) between the Issuer, Občanské Sdružení ZELENÝ OSTROV as co-obligor under the Bonds (the “**Co-obligor**”) and J.P. Morgan Corporate Trustee Services Limited as trustee (the “**Trustee**”, which expression includes any successor trustee appointed from time to time as trustee for the holders of Bonds (the “**Bondholders**”), JPMorgan Chase Bank, N.A., London Branch as the security agent (the “**Security Agent**”), the holders of the related interest coupons (the “**Couponholders**” and the “**Coupons**”, respectively) and the holders of Receipts (as defined below)) (the “**Trust Deed**”). The Bonds have attached thereto at the time of their initial delivery, payment receipts (“**Receipts**”) in respect of instalments of principal and talons for exchange for additional Coupons (“**Talons**”). The obligations of the Issuer are secured by way of (i) a first ranking mortgage over (a) SAZKA Arena (as defined below) (for the avoidance of doubt, this does not include the Small Arena) (the “**Arena Mortgage**”); and (b) over the head office of the Issuer at K Žižkovu 851, 190 93, Prague 9, Czech Republic and certain adjacent land granting access to the same (the “**Head Office Mortgage**”); and (ii) a mortgage (the “**Arena Land Mortgage**”) over the land beneath SAZKA Arena (each as defined in Condition 3)), certain land adjacent to SAZKA Arena (as defined in Condition 3) granting access to the same and land beneath the Small Arena (as defined in Conditions) (the “**Arena Land**”) (iii) a share pledge agreement over the bearer shares of Bestsport owned by the Co-obligor, dated 12 July 2006 (the “**Pledge Agreement**”), (iv) an agreement between the Issuer and Bestsport effective the Issue Date and relating to the granting of compensation to Bestsport for its grant of a first ranking mortgage over SAZKA Arena in favour of the Issuer (the “**Arena Mortgage Related Contract**”) and (v) a notarised deed entered into between the Issuer and the Security Agent acknowledging enforcement rights under the Trustee Deed (the “**Enforcement Agreement**”) together with the Head Office Mortgage, the Arena Mortgage, the Arena Land Mortgage and the Arena Mortgage Related Contract, the “**Bond Security**”). The Arena Mortgage is set out in an agreement under Czech law between Bestsport and the Security Agent dated 12 July 2006 (the “**Arena Mortgage Agreement**”), the Head Office Mortgage is set out in an agreement under Czech law between the Issuer and Security Agent dated 12 July 2006 (the “**Head Office Mortgage Agreement**”) and the Arena Land Mortgage is set out in a mortgage agreement under Czech law between the Issuer and the Security Agent, dated 12 July 2006 (the “**Arena Land Mortgage Agreement**”) and, together with the Arena Mortgage Agreement and the Head Office Mortgage Agreement, the “**Mortgage Agreements**”). The issue of the Bonds was authorised by resolutions of meetings of the Board of Directors of the Issuer held on 7 July 2006 and of the Supervisory Board of the Issuer held on 7 July 2006 and by a resolution of a meeting of the Executive Council of the Co-obligor held on 7 July 2006, and was approved by a meeting of shareholders of the Issuer at a shareholders meeting held on 7 July 2006 and by a resolution of a meeting of members of the Co-obligor held on 7 July 2006. The execution of the Head Office Mortgage Agreement was authorised by resolutions of meetings of the Board of Directors of the Issuer held on 7 July 2006 and of the Supervisory Board of the Issuer held on 7 July 2006. The execution of the Arena Mortgage Agreement was authorised by resolutions of meetings of the Board of Directors of Bestsport held on 7 July 2006 and of the Supervisory Board of Bestsport held on 7 July 2006 and was approved by a meeting of shareholders of Bestsport at a shareholders meeting held on 7 July 2006. The execution of the Pledge Agreement was authorized by a resolution of a meeting of the Executive Council of the Co-obligor held on 7 July 2006 and was approved by a resolution of a meeting of members of the Co-obligor held on 7 July 2006. The Bonds are also the subject of an agency agreement dated the Issue Date made between the Issuer, the Co-obligor, the Trustee and the Paying Agents named therein (the “**Agency Agreement**”). The statements in these Conditions include summaries of and are subject to the detailed provisions of the Trust Deed and the Agency Agreement. The Bondholders, the Couponholders and the holders of the Receipts are entitled to the benefit of, and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement, the Pledge Agreement and the Mortgage Agreements applicable to them. Copies of the Trust Deed, the Agency Agreement and an English translation of the Mortgage Agreements and the Pledge Agreement are available for inspection during normal business hours at the Specified Office (as defined in the Agency Agreement) of the initial Paying Agents as set out below. The assets which are subject to the Bond Security are herein referred to as the “**Charged Property**”. The Pledge Agreement will terminate upon the date following three months after registration of the Arena Mortgage at the Czech Cadastral Registry.

1 Form, Denomination and Title

- (a) The Bonds are in bearer form in denomination of €50,000 with Coupons, Talons and Receipts attached at the time of issue. Title to the Bonds, Coupons and Talons will pass by delivery. The holder of any Bond, Coupon, Talon or Receipt shall (except as otherwise required by law) 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 other interest therein, any writing thereon or any notice of any previous loss or theft 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 the Bonds under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.
- (b) Bondholders have notice of, and have accepted, these Conditions and the contents of the Transaction Documents (as defined below) and the Bond Documents (as defined below), and have hereby accepted that: (i) neither the Trustee nor the Security Agent is bound or concerned to examine or enquire into or be liable for any failure to make any investigations in relation to the assets which are intended to become secured under the Bond Security, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of Bestsport, the Co-obligor or the Issuer to such properties whether such defect or failure was known to the Security Agent or the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not; (ii) neither the Trustee nor the Security Agent is obliged to investigate or monitor or take any action in any respect of any matter relating to property secured under the Bond Security or any property transaction conducted by the Issuer, Bestsport or the Co-obligor, or any rights granted or received in respect thereof (or which ought to have been granted or received in respect thereof, for the benefit of any property comprised in the Bond Security) to preserve the value or to maintain the operation of such property); (iii) neither the Trustee nor the Security Agent will have any liability for the enforceability of the Bonds or the Bond Security by or on behalf of the Bondholders directly or indirectly or for protecting or perfecting such security or for the mechanics for any of the same; and (iv) neither the Trustee nor the Security Agent has any responsibility for any unsuitability, inadequacy or unfitness, or for the value or illiquidity of, any of such assets or for any delay in enforcing or inability to enforce the Bond Security due to the same.

So long as the Bonds are represented by a Global Bond and the relevant clearing system(s) so permit, the Bonds shall be tradeable only in principal nominal amounts of at least €50,000 (or its equivalent in any other currency) provided hereon and integral multiples of €1,000 above €50,000.

2 Status

The Bonds constitute direct, unconditional and (subject to the valid registration of the Mortgage Agreements with the Czech Cadastral Registry) secured obligations of the Issuer and direct, unconditional and (subject to the provisions of Condition 3(a) (*Negative Pledge*)) unsubordinated limited recourse obligations of the Co-obligor, respectively. The payment obligations of the Issuer and the Co-obligor under these Conditions, including, without limitation, the purchase obligations under Condition 6 (*Redemption and Purchase*) and the payment obligations under Condition 8 (*Taxation*) are joint and several, and the other obligations of the Issuer and the Co-obligor under these Conditions are several.

Any waiver by the Trustee or a Bondholder of any right (arising under these Conditions or under the law) in relation to one party jointly and severally liable with another or any taking or failure to take any action against that party does not affect any rights of the Trustee or the Bondholder against the other party.

3 Covenants

So long as any Bonds remain outstanding (as defined in the Trust Deed):

- (a) *Negative Pledge*: The Issuer and the Co-obligor will not, and Bestsport has covenanted in the Trust Deed that it will not, create, permit to arise or have outstanding any mortgage, pledge, lien, charge or other security interest (“**Security**”) (save for those created and subsisting under the Bond Security) other than Permitted Security upon the whole or any part of its respective undertaking, assets or revenues, present or future (including any uncalled capital), in order to secure any existing or future liability (including contingent liability) in respect of any Indebtedness (as defined below)

(or to secure any guarantee or indemnity in respect thereof) without in any such case before or at the same time creating either the same security in respect of the Bonds as is created or is outstanding in respect of such Indebtedness (or any guarantee or indemnity in respect thereof) or such other security as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed as a resolution duly passed by a majority of not less than 75 per cent. of the votes cast thereon) of the Bondholders.

- (b) *Restrictive Covenant on Future Debt:* The Issuer and the Co-obligor will not, and Bestsport has covenanted in the Trust Deed that it will not, assume, in each case other than Permitted Debt, (i) Indebtedness in the form of lease agreements, suretyships or guarantees, in each case to finance the acquisition of plant, machinery, equipment or technology for use at SAZKA Arena of more than an aggregate amount outstanding at any time of CZK 1.1 billion or its equivalent in other currencies (and for the avoidance of doubt, excluding any double counting and excluding any Indebtedness in the form of interest payment obligations), and (ii) Indebtedness (excluding any Indebtedness under (i) above) of more than an aggregate amount outstanding at any time of CZK 1.95 billion or its equivalent in other currencies (less any permanent repayments of Indebtedness with the proceeds of Asset Sales made in accordance with the provisions of Conditions 3(d)(iii) and (ix)(A)), excluding from such aggregate amount any Indebtedness in the form of interest payment obligations.
- (c) *Restrictions on Activities:* (i) The Issuer will only engage in the gaming business and other activities conducted by it and its Subsidiaries (if any) on the Issue Date and as described in the Prospectus relating to the Bonds (the “**Prospectus**”) and any business or activity which is determined by the Board to be incidental, similar, complementary or reasonably related thereto (including, without limitation, the use of its terminal network for non-gaming businesses and services, the sale of goods and establishing any Subsidiaries and operating gaming and other activities in any member state of the European Union, Norway, Switzerland and the United States of America) and (ii) the Co-obligor will only engage in those activities expressly stipulated to be undertaken by it in the Transaction Documents or envisaged in or necessary in connection with the activities stipulated in the Transaction Documents with respect to the Co-obligor and shall not incur any liabilities (including contingent liabilities) other than any Indebtedness permitted to be incurred by it under Condition 3(b) (*Restrictive Covenant on Future Debt*) and (iii) Bestsport has undertaken in the Trust Deed only to engage in the completion of the construction of SAZKA Arena and operation of the same and any other activities permitted or contemplated with respect to it by the Transaction Documents or reasonably related thereto.
- (d) *Disposal of Assets:*
- (i) The Issuer and the Co-obligor will not and Bestsport has covenanted in the Trust Deed that it will not consummate any Asset Sale other than any Permitted Asset Sale, Non-Core Asset Sale, Small Arena Asset Sale or Zelený Ostrov Asset Sale, unless:
- (A) such Asset Sale is entered into in good faith and in writing;
- (B) the consideration received pursuant thereto is at least equal to the fair market value of the assets sold or disposed of; and
- (C) at least 75 per cent. of the consideration received consists of cash;
- provided, however,* that at no point shall the Issuer consummate any Asset Sale (other than any Zelený Ostrov Asset Sale or Non-Core Asset Sale), if the aggregate Agreed Value from all Asset Sales (excluding any Zelený Ostrov Asset Sale or Non-Core Asset Sale) from the date of the Trust Deed by the Issuer or any of its Subsidiaries (other than sales exclusively between such Subsidiaries or exclusively between the Issuer and such Subsidiaries), after taking into account the effect of such Asset Sale, exceeds 5 per cent. of the consolidated total assets of the Issuer as set out on the audited consolidated balance sheet of the Issuer as at 31 December 2005.
- (ii) Fair market value of the assets sold or disposed of shall be determined:
- (A) in the case of Asset Sales to an Affiliate of any of the Issuer, Bestsport or the Co-obligor, or any of their respective wholly-owned Subsidiaries, with respect to any transaction or series of related transactions involving an aggregate value:
- (1) up to an amount equal to €5 million by the management of the Issuer, Bestsport or the Co-obligor, as the case may be;

- (2) in excess of an amount equal to €5 million, by a written resolution of a majority of the Supervisory Board of the Issuer, Bestsport or the Co-obligor, as the case may be, certified and delivered to the Trustee; and
 - (3) in excess of an amount equal to €10 million, a written opinion, addressed to the Trustee, of an independent investment banking, accounting or appraisal firm of international standing, as selected by the Issuer with the approval of the Trustee, with experience appraising the terms and conditions of the type of transaction or series of related transactions for which an opinion is required certified and delivered to the Trustee stating that the transaction or series of related transactions is fair to the Issuer, Bestsport or the Co-obligor from a financial point of view; and
- (B) in the case of any other Asset Sales, with respect to any transaction or series of related transactions involving an aggregate value:
- (1) up to an amount equal to €5 million by the management of the Issuer, Bestsport or the Co-obligor, as the case may be; and
 - (2) in excess of an amount equal to €5 million, by a majority of the Supervisory Board of the Issuer, Bestsport or the Co-obligor, as the case may be, certified and delivered to the Trustee.
- (iii) In the event and to the extent that the Agreed Value received by the Issuer, from one or more Asset Sales (including, for the avoidance of doubt, any Permitted Asset Sale or Non-Core Asset Sale) other than any Zelený Ostrov Asset Sale or Small Arena Asset Sale for any fiscal year of the Issuer exceed €3 million, then the Issuer shall within 120 days after the end of such fiscal year apply (in each case, no later than the end of such 120 day period) at least 75 per cent. of such excess Agreed Value (“**Repayment Amount**”) to permanent repayment of any Indebtedness of the Issuer other than the Bonds.
- (iv) The amount of the Repayment Amount not applied to permanent repayment of any Indebtedness other than the Bonds during such 120 day period as set forth above shall constitute “**Excess Proceeds**”.
- (v) If the amount of aggregate Excess Proceeds accumulated for all such periods at any time exceeds €3 million, the Issuer must commence, not later than the fifteenth Business Day after such month that the Excess Proceeds exceeds €3 million, an offer from the Bondholders (and if required by the terms of any other Indebtedness, from the holders of such Indebtedness) on a pro rata basis an aggregate principal amount of Bonds (and permanent repayment of Indebtedness) equal to the Excess Proceeds on such date (an “**Asset Sale Offer**”), at a purchase price equal to 100 per cent. of their principal amount.
- (vi) To commence the Asset Sale Offer, the Issuer will give notice to the Bondholders, in the manner described under Condition 15 (*Notices*) below, and the Trustee, setting out the amount of Excess Proceeds and offering to purchase Bonds in an amount equal to the Excess Proceeds (or the Bondholders *pro rata* share of the Excess Proceeds, as the case may be) on the date specified in such notice, which date shall be the Asset Sale Offer Settlement Date, pursuant to the procedures required by the Agency Agreement and described in such notice.
- (vii) On or before the Asset Sale Offer Settlement Date, the Issuer will, to the extent lawful:
- (A) accept for payment the Bonds properly tendered up to an aggregate principal amount equal to the amount of the Excess Proceeds specified in the notice for the purchase of such Bonds (by way of deposit by the relevant Bondholder with the Principal Paying Agent of such Bond together with all unmatured Coupons, Talons and Receipts relating thereto and a duly completed notice relating to such Asset Sale Offer (an “**Asset Sale Offer Notice**”) in the form obtainable from the Principal Paying Agent) pursuant to the Asset Sale Offer; and
 - (B) deposit with the Principal Paying Agent an amount equal to the Excess Proceeds in respect of all Bonds accepted for payment.
- (viii) The Issuer will give notice to the Bondholders, in the manner described under Condition 15 (*Notices*) below the results of the Asset Sale Offer on or as soon as practicable after the Asset Sale Offer Settlement Date.

- (ix) The entire amount of the Net Proceeds of any Zelený Ostrov Asset Sale shall be applied: (A) *first*, in an amount no less than CZK 155 million (to the extent such amount remains outstanding) plus accrued interest, to permanent repayment of BAWAG Indebtedness; (B) *second*, in an amount no less than CZK 120 million to distribute to Bestsport for the purpose of covering any operating loss in the operation of Sazka Arena; and (C) *third*, the remainder to pay dividends to its shareholders or for general corporate purposes.
 - (x) The Issuer and the Co-obligor will not, and Bestsport has covenanted in the Trust Deed that it will not, consummate any Asset Sale of any Charged Property other than in a Permitted Asset Sale.
 - (xi) For the avoidance of doubt, upon any Permitted Asset Sale of Charged Property by the Issuer, the Co-obligor or Bestsport, the Bond Security over such Charged Property will not be released.
- (e) *Dividends or Distributions:* The Issuer and the Co-obligor will not, and Bestsport has covenanted in the Trust Deed that it will not, pay any dividend or make any other distribution on or in respect of its share capital (including, but not limited to, preference and deferred share capital), *provided* that in the case of the Issuer only, the Issuer may pay:
- (i) during each calendar month, an advance distribution of up to one-twelfth of the annual Part of Proceeds (*odvod části výtěžku*) or one-twelfth of the annual proceeds (*odvod výtěžku*) as defined in Article 4 of Act No. 202/1990 Coll., on Lotteries and Other Similar Games (the “**Lotteries Act**”) of its lottery activities (“**Good Cause Payments**”) to its shareholders if the following conditions have been met:
 - (A) the Issuer’s most recent quarterly accounts prepared in accordance with IFRS show a net profit (*vysledek hospodareni za ucetni obdobi*) of at least CZK 250 million; and
 - (B) the Issuer has within 50 days after the end of the most recent fiscal quarter delivered a copy of the accounts in respect of such quarter (prepared in accordance IFRS) to the Trustee and has certified in writing to the Trustee that there is no outstanding Event of Default or Potential Event of Default (as defined in the Trust Deed);
 - (ii) following the end of each fiscal year and following the approval of the total annual proceeds under Article 4 of the Lotteries Act at the general meeting of the Issuer, the outstanding amount of the total annual proceeds under Article 4 of the Lotteries Act not distributed as part of the advances under Condition 3(e)(i) above;
 - (iii) at the beginning of the month immediately following the release of the Issuer’s most recent quarterly accounts prepared in accordance with International Financial Reporting Standards (“**IFRS**”), if the ratio of Indebtedness to EBITDA of the Issuer for the most recent four full fiscal quarters for which accounts prepared in accordance with IFRS taken as one period and taking into account the effect of such distribution on a *pro forma* basis is no greater than three to one, a dividend to its shareholders; and
 - (iv) amounts from the Net Proceeds of any Zelený Ostrov Asset Sale as described at Condition 3(d)(ix).
- (f) *Merger:* Neither the Issuer nor the Co-obligor will, and Bestsport has covenanted in the Trust Deed that it will not, consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person otherwise than as part of a Permitted Merger or as otherwise approved by the Trustee or by an Extraordinary Resolution of the Bondholders.
- (g) *No Variation or Waiver:* Neither the Issuer nor the Co-obligor will, and Bestsport has covenanted in the Trust Deed that it will not, permit any of the Transaction Documents to which it is a party to be amended, terminated, postponed or discharged, or consent to any variation of any of the Transaction Documents to which it is a party, or permit any other party to any of the Transaction Documents to which it is a party to be released from its obligations under them save for a Permitted Amendment, and further, the Co-obligor will not amend, supplement or otherwise modify its Memorandum and Articles of Association, except in each case for any amendment approved by the Trustee.

(h) Reporting Covenants:

The Issuer will:

- (i)** as soon as the same become available, but in any event within 150 days after the end of each of its financial years (beginning with the current financial year), deliver to the Trustee three copies of its audited consolidated financial statements for such financial year prepared in accordance with IFRS together with the auditors' reports accompanying such financial statements in each case in certified English translation;
 - (ii)** as soon as the same become available, but in any event within 50 days after the end of the first half of each of its financial years (beginning with the current financial year), deliver to the Trustee, three copies of its unaudited unconsolidated financial statements for such half year in certified English translation; and
 - (iii)** procure that the financial statements delivered pursuant to this Condition 3(h) shall include such financial statements as are required by the laws of the Czech Republic with respect to joint stock companies and, together with the notes to them, give a true and accurate view of the Issuer's state of affairs and profits, financial condition and operations as at their date and for the financial period ended on such date.
- (i) Notification of Events of Default, etc:** The Issuer and the Co-obligor will notify the Trustee of the occurrence of any Event of Default or Potential Event of Default promptly upon becoming aware of it and the Issuer and the Co-obligor shall deliver to the Trustee, (a) with each document delivered by it under Condition 3(h) (*Reporting Covenants*), and (b) seven business days after any request therefor made by the Trustee from time to time, a certificate signed by the Chairman or Deputy Chairman of the Board of Directors of the Issuer and signed by two members of the Executive Council of the Co-obligor confirming that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer and (if applicable) except as previously waived by the Trustee or by Extraordinary Resolution of the Bondholders or where the provisions of Condition 4 (*Covenant Defeasance*) have become applicable, no Potential Event of Default or Event of Default has occurred since the date of the last such certificate or, in the case of the first such certificate, since the date of the Trust Deed, or (as the case may be) setting out details of any such Potential Event of Default or Event of Default which has occurred and of which the Issuer or the Co-obligor is aware having made all reasonable enquiries, and of any action taken or proposed to be taken to remedy the same.
- (j) Other Information:**
- (i)** The Issuer shall promptly:
 - (A)** deliver to the Trustee two copies in certified English translation of any notice, circular, report, document or other written information required by Czech corporate law to be sent by the Issuer to its shareholders; and
 - (B)** deliver to the Trustee such information as the Trustee shall require and in such form as it shall require for the purpose of the discharge of its duties, powers and discretions under the Trust Deed in each case in certified English translation;
 - (ii)** The Issuer shall promptly inform the Trustee of the occurrence of the following:
 - (A)** the commencement of any action, arbitration or administrative proceeding before any court or agency which, if resolved adversely to the interests of the Issuer or the Co-obligor would have, in the reasonable opinion of the Issuer, a material adverse effect on its business operations, financial position or business prospects and the details of any such action, arbitration or administrative proceeding;
 - (B)** any event which will or could give rise to a claim by the Issuer or the Co-obligor under any Insurances (as defined below) where the amount of any such claim exceeds CZK 10 million;
 - (C)** any legislative change in the Czech Republic (including, but not limited to, tax legislation) which is reasonably likely to have a material adverse effect on the characterisation of payments made under the Transaction Documents as Good Cause Payments; and

- (iii) The Issuer shall promptly deliver to the Trustee a certificate in English signed on its behalf by the Chairman or Deputy Chairman of its Board of Directors confirming, on a semi-annual basis, that (i) the Issuer is complying with all material statutory obligations applicable to it, (ii) there has been no event that would be expected to have a material adverse effect on the performance of the Issuer's obligations under the Bond Documents or the Transaction Documents, and (iii) there has been no breach of the Conditions.
- (k) *Capital Expenditure*: The Issuer and Co-obligor will not undertake any, or enter into any, financial commitments with respect to Capital Expenditure other than any Permitted Capital Expenditure, unless otherwise agreed by a majority of Bondholders.
- (l) *Amendments*: The Issuer will promptly deliver, and Bestsport has covenanted in the Trust Deed to promptly deliver, to the Trustee, a certified English translation of a true copy certified as such by its respective duly authorised officer of any material amendments to, or modification or variation of, any material licenses, consents, approvals or registrations relating to its business.
- (m) *Insurance*: Bestsport has agreed, and failing that the Co-obligor has agreed, in the Trust Deed to effect and maintain or cause to be effected and maintained in full force and effect and on terms (including with respect to deductibles) and with reputable underwriters or insurance companies insurance, including insurances required by any applicable law, rule or regulation, on and in relation to SAZKA Arena, at least for such risks and such amounts as conform to and as are further set out in the Trust Deed. The Issuer has agreed in the Trust Deed to effect and maintain or cause to be effected and maintained in full force and effect and on terms (including with respect to deductibles) and with reputable underwriters or insurance companies insurance, including insurances required by any applicable law, rule or regulation, on and in relation to the head office of the Issuer, at least for such risks and such amounts as conform to and as are further set out in the Trust Deed.
- (n) *Use of Proceeds*: The Issuer will use the proceeds in the manner described in the section "Use of Proceeds" in the Prospectus.

In these conditions:

"**Affiliate**" of any specified Person means:

- (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person;
- (b) any other Person who is a director, officer or board member of (i) such specified Person, (ii) any Subsidiary of such specified Person or (iii) of any Person described at (a) above;
- (c) any beneficial owner of shares representing five per cent. or more of the total voting power (on a fully diluted basis) of all classes of stock of such Person then outstanding and normally entitled to vote in a shareholder's meeting of such specified Person or of rights or warrants to purchase such stock (whether or not currently exercisable) and any Person who would be an Affiliate of such beneficial owner under (a) or (b) above;

for the purposes of this definition "control" when used with respect to any Person means the power to control the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"**Agreed Form**" means the forms agreed between Linklaters, v.o.s., and Weil, Gotshal & Manges v.o.s. and initialled by a representative of each such firm prior to the Issue Date and with any amendment approved by the Trustee which is either (i) of a formal, minor or technical nature, is made to clarify an ambiguity or to correct a manifest or proven error or arises from due operation of law, or (ii) which is, in the opinion of the Trustee, not materially prejudicial to the Bondholders.

"**Agreed Value**" means, with respect to any asset or property transferred, sold, leased, parted with, otherwise disposed of, or dealt with, or granted in any Asset Sale, the value of such asset or property, or if only a part of such asset or property has been transferred, sold, leased, parted with, otherwise disposed of, or dealt with, or granted in such Asset Sale, the value of such part, as provided in the most recent annual audited consolidated balance sheet of the Issuer.

"**Arena Land**" means plots of land Nos. 3343/32, 3343/9, 3343/29, 3343/35, 3343/30, 3343/60, 3343/41 and 3343/79 registered in the Cadastral Register maintained by the Cadastral Office for the Municipality of Prague, Cadastral Department Prague, on ownership deed no. 5618, cadastral territory of Libeň, municipality of Prague.

“**Asset Sale**” means any transfer, sale, lease, parting with, or other disposal of, or dealing with, or, to the extent reflected in the audited consolidated financial statements of the Issuer, Co-obligor or Bestsport, as the case may be, granting of any option or present or future right to acquire any of asset or undertaking or any interest, estate, right, title or benefit therein (for the avoidance of doubt, in each case, without double counting).

“**Asset Sale Offer Settlement Date**” means the next Interest Payment Date after the date the relevant Asset Sale Offer Notice is given.

“**BAWAG Indebtedness**” means Indebtedness incurred by the Issuer under the credit agreement with BAWAG Bank CZ a.s. dated 15 July 2005.

“**Bond Documents**” means the Trust Deed, the Agency Agreement, the Bonds, the Talons, the Coupons, the Receipts and the documents constituting the Bond Security.

“**Business Day**” means a day (i) other than a Saturday or Sunday or a public holiday on which commercial banks and foreign exchange markets are open for business in Prague and London and (ii) only if involving any payment to be made in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer System (TARGET) is operating.

“**Capital Expenditure**” means, for the Issuer for any period, the sum of, without duplication, (a) all expenditures made directly or indirectly by the Issuer during such period for equipment, fixed assets, real property or improvements or for replacements or substitutions thereof or additions thereto, that have been or should be, in accordance with IFRS then in effect, reflected as additions to property, plant and equipment on a consolidated balance sheet of the Issuer or have a useful life of more than one year plus (b) the aggregate principal amount of all Indebtedness (including obligations under capitalised leases) assumed or incurred in connection with any such expenditures.

“**EBITDA**” means, for any period, an amount equal to, for the Issuer, the sum of profit for such period (exclusive of any gain or loss realised in such period upon an Asset Sale) plus the following to the extent reducing profit for such period:

- (a) the effect of any transactions with any Affiliates;
- (b) the provision for taxes based on income or profits utilised in commuting net loss;
- (c) the total consolidated interest expense of the Issuer determined in accordance with IFRS;
- (d) amortisation or depreciation of start-up costs, deferred expenses and tangible assets;
- (e) amortisation of intangibles and goodwill; and
- (f) any other non-cash items (other than any such non-cash item to the extent that it represents an accrual of or reserve for cash expenditures in any future period).

“**Indebtedness**” means, with respect to any Person, without duplication and whether or not contingent and to whomever due, owing or incurred (whether or not a financial institution):

- (a) all indebtedness of such Person for borrowed money whether evidenced by bonds, debentures, notes, loan stock, promissory notes or other similar instruments or otherwise;
- (b) obligations of such Person under a finance lease that are required to be classified and accounted for as capital lease obligations under IFRS (excluding, for the avoidance of doubt, any operating leases) and, for the purposes of this definition, the amount of such obligations at any date shall be the capitalised amount of such obligations at such date determined in accordance with IFRS;
- (c) the balance deferred (and unpaid) of the purchase price of any property (but excluding any part of such balance that represents a trade accounts payable or accrued liabilities);
- (d) all obligations of such Person for the reimbursement of any obligor on any letters of credit, performance bonds, bankers’ acceptances or similar credit transactions; and
- (e) guarantee obligations of such Person in respect of Indebtedness of any other Person of the type referred to in paragraphs (a) to (d) (inclusive) above.

“**IFRS**” means accounting principles issued by the International Accounting Standards Board at the date in effect.

“**Insurances**” means each of the contracts for insurance taken out by or on behalf of the Co-obligor or Bestsport in accordance with Condition 3(m) (*Insurance*).

“Material Adverse Effect” means an effect which might, in the opinion of the Trustee, reasonably be expected materially to impair the ability of the Issuer or the Co-obligor, to perform and comply with any of their respective material obligations (including, without limitation, all of their payment obligations) under the Trust Deed and the Conditions.

“Net Proceeds” means the proceeds of an Asset Sale, net of:

- (a) brokerage commissions and other fees and expenses (including, but not limited to, fees and expenses of counsel and investment bankers, administrative fees, costs of expert evaluation) related to such Asset Sale (but not including any such commissions, fees and expenses paid to any Affiliate of the Issuer); and
- (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated net profit of the Issuer.

“Non-Core Asset Sale” means any Asset Sale of Agro Tera, a.s., Arkadia, a.s. and/or Rabštejn.

“Permitted Amendment” means any amendment to the Amended Mandatory Contribution Agreement, Amended Finance Lease Agreement, Management Agreement, or Loan Agreement which is made to reflect any change in the date for the determination of the CZK equivalent of euro amounts specified in such Amended Mandatory Contribution Agreement, Amended Finance Lease Agreement, Management Agreement or Loan Agreement as a result of changes in Permitted Hedging Obligations entered into from time to time by the Issuer in connection with its obligations under the Transaction Documents or the Arena Mortgage Related Contract that relate solely to revisions to the CZK/euro exchange rate and which will not have a Material Adverse Effect.

“Permitted Asset Sale” means:

- (a) sales exclusively between the Issuer, the Co-obligor and Bestsport;
- (b) a transaction or series of transactions involving the sales of assets for which the Issuer or Bestsport receives in a transaction or series of transactions aggregate cash consideration of less than €1 million;
- (c) leasing SAZKA’s head office at K Žižkovu 851, 190 93, Prague 9, the Czech Republic or any part thereof concluded under customary leasing terms and conditions, including the right of the Issuer to terminate such lease upon giving notice with a period not exceeding one year (including, for the avoidance of doubt, the Agreement on Lease of Non-residential Premises, dated 27 February 1998 between the Issuer and Business Centre Services, a.s.);
- (d) leasing SAZKA Arena or any part thereof under the Amended Finance Lease Agreement and/or the Management Agreement, in each case as in effect as of the Issue Date; and/or
- (e) leasing or subleasing of part only of SAZKA Arena by Bestsport, in each case, as necessary for the operation of SAZKA Arena or which are beneficial in the ordinary course of business of operating a sports facility of similar type.

“Permitted Capital Expenditure” means Capital Expenditure made related to the lottery business and non-lottery business conducted by the Issuer and its Subsidiaries on the Issue Date and as described in the Prospectus, so long as such Capital Expenditure is used directly for the purpose of one or more of the following activities:

- (a) capital investments for the development and maintenance of information technology, including for the acquisition of a back-up data centre;
- (b) technical and information technology equipment necessary for the operation of SAZKA sites and sales points;
- (c) land purchases only in the following areas: (i) Zelený Ostrov, Prague 9, the Czech Republic; (ii) plots of lands adjacent to SAZKA’s headquarters for the purposes of expanding SAZKA’s headquarters at K Žižkovu 851, 190 93, Prague 9, the Czech Republic; and (iii) in an total aggregate amount not to exceed CZK 3 million, Rabštejn;
- (d) reconstruction and modernization of SAZKA’s headquarters at K Žižkovu 851, 190 93, Prague 9, the Czech Republic and its regional centres in České Budějovice, Plzeň, Ústí nad Labem, Hradec Králové, Brno and Ostrava;
- (e) purchase of a training and accommodation centre and related land in Nouzov which is currently leased by the Issuer from CSTV for a purchase price of up to an aggregate amount not to exceed CZK 10 million;

- (f) increase of capital in Subsidiaries for the purpose of covering financial costs for purchase of certain lots of land up to an aggregate amount not to exceed CZK 50 million;
- (g) investments made in property, plant and equipment in the ordinary course of business and replacing obsolete, worn out or damaged assets used for the same purpose; and
- (h) investments made for the purpose of extending the business (including, for the avoidance of doubt, the lottery as well as the non-lottery business) of the Issuer and its Subsidiaries in the United States of America, Norway, Switzerland and member states of the European Union up to an aggregate amount not to exceed CZK 100 million per annum; *provided, however*, that any investment made in accordance with this paragraph (h) shall only be considered Permitted Capital Expenditure if, at the time of such investment, or immediately after giving effect thereto, the Issuer is able to assume at least CZK 1 of additional Indebtedness in compliance with Condition 3(b).

“Permitted Debt” means:

- (a) the incurrence by the Issuer, the Co-obligor and/or Bestsport of Indebtedness incurred pursuant to the terms of the Bond Documents and the Transaction Documents;
- (b) the incurrence by the Issuer, the Co-obligor and/or Bestsport of Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance or replace Indebtedness permitted to be incurred under Condition 3(b) (*Restrictive Covenant on Future Debt*);
- (c) the incurrence by the Issuer, the Co-obligor and/or Bestsport of Indebtedness between or among themselves;
- (d) the incurrence by the Issuer of Permitted Hedging Obligations;
- (e) Indebtedness arising from agreements of the Issuer, the Co-obligor and/or Bestsport providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the disposition or purchase of any business, assets or a Subsidiary;
- (f) Indebtedness of the Issuer, the Co-obligor or Bestsport in respect of workers’ compensation and other claims or obligations arising under or in connection with social security, welfare, employment-related or similar regulation, in each case arising in the ordinary course of business, including for the avoidance of doubt, guarantees of any obligations of the foregoing nature; and
- (g) Indebtedness of the Issuer, the Co-obligor and/or Bestsport consisting of leasing or advance or extended payment terms in the ordinary course of business.

“Permitted Hedging Obligations” means, with respect to the Issuer or the Co-obligor, its obligations under currency exchange or interest rate swap, cap or collar arrangements and any other agreements or arrangements that are, in each case, designed to protect the Issuer or the Co-obligor, as the case may be, against fluctuations in currency exchange or interest rates.

“Permitted Merger” means a consolidation, merger or conveyance of properties or assets where the Issuer, the Co-obligor or Bestsport, as the case may be, is the surviving entity and the surviving entity expressly assumes by appropriate documentation in a form agreed to prior to such Permitted Merger by the Trustee, all of the obligations of the Issuer, the Co-obligor or Bestsport as the case may be, under the Bond Documents and the Transaction Documents *provided* that a Permitted Merger may only take place in the case of the Issuer, the Co-obligor or Bestsport, if:

- (a) the Trustee receives, within fourteen days of the closing of such consolidation, merger or conveyance of properties or assets, a certificate signed by the Chairman or Deputy Chairman of the Board of Directors of the Issuer and a legal opinion from counsel satisfactory to the Trustee, including, in each case, (1) a statement that the person making such certificate or opinion has read Condition 3(f) (*Merger*); (2) a statement as to the nature and scope of the examination or investigation upon which the certificate or opinion contained in such opinion is based; (3) a statement that, in the opinion of such person, the relevant consolidation, merger or conveyance of properties or assets is a Permitted Merger:
 - (i) does not affect the regulatory treatment of payments by the Issuer or, as the case may be, the surviving entity to the Co-obligor or, as the case may be, the surviving entity under the Amended Mandatory Contribution Agreement and by the Co-obligor or, as the case may be, the surviving entity to Bestsport, or as the case may be, the surviving entity under the Amended Finance Lease Agreement as Good Cause Payments; and

- (ii) results in the obligations of the Issuer and the Co-obligor or, as the case may be, the surviving entity under the Transaction Documents and the Bond Documents remaining legal, valid and binding and enforceable (to the extent that any obligation or document is of a type and form enforced by the Czech courts but subject to a customary limitations under Czech law and limitations resulting from the laws of bankruptcy, insolvency, liquidation and other laws affecting generally the enforcement of creditors' rights) obligations of each of the Issuer and the Co-obligor or, as the case may be, the surviving entity; and
- (b) such Permitted Merger has not resulted in any licence required by the Issuer or, as the case may be, the surviving entity for gaming or lottery activity being terminated, revoked or suspended unless (in the case of a termination or revocation) the relevant licence has been or will be replaced with a licence permitting the Issuer or, as the case may be, the surviving entity to carry on the same or substantially the same activities or (in the case of a suspension) the suspension applying to the relevant licence has been or will be lifted in each case within 30 days of that termination, revocation or suspension (as the case may be).

“**Permitted Security**” means:

- (a) Security in favour of the Issuer or Bestsport;
- (b) Security on property of a Person existing at the time such Person is merged with or into or consolidated with the Issuer or Bestsport;
- (c) Security on property existing at the time of the acquisition of such property by the Issuer or Bestsport;
- (d) Security to secure the performance of statutory obligations or appeal bonds (solely in the context of litigation), performance bonds or other obligations of a like nature incurred in the ordinary course of business or Bestsport;
- (e) Security granted by the Issuer to secure Permitted Debt;
- (f) Security for any tax, duty, levy, import, assessment or other governmental charge (including penalties, interest and other liabilities related thereto), or any other Security arising by operation of law;
- (g) Security granted by the Issuer securing Permitted Hedging Obligations and any Security the principal purpose of which is to allow the setting off or netting of obligations under or in connection with Permitted Hedging Obligations;
- (h) legally enforceable rights of set-off under contracts;
- (i) in the case of the Issuer or Bestsport, Security in favour of customs or revenue authorities to secure payment of customs duties in connection with the importation of goods in the ordinary course of business;
- (j) easements, rights of way, zoning restrictions and other similar charges or encumbrances or leases in respect of real property granted by or affecting the Issuer or Bestsport not interfering in any material respect with the ordinary conduct of its respective business;
- (k) any retention of title reserved by any seller of goods or any Security imposed, reserved or granted over goods supplied by such seller not interfering in any material respect with the ordinary conduct of the business of the Issuer or Bestsport;
- (l) Security arising out of or in connection with pre-judgment legal process or a judgment or a judicial award relating to security for costs;
- (m) any right of first refusal, right of first offer, option or other agreement entered into with respect to a Permitted Asset Sale;
- (n) carriers', warehousemen's, mechanics', landlords', materialmen's, repairmen's or other like Security arising in the ordinary course of business of the Issuer or Bestsport;
- (o) any Security pursuant to the general banking terms and conditions of any bank with which the Issuer or the Co-obligor or Bestsport, as the case may be, holds a bank account; and
- (p) easements encumbering the Arena Land and SAZKA Arena enabling the location of the Small Arena on the Arena Land, resting on SAZKA Arena and to sustain good access for the operation, upgrade, maintenance, use and repair of the Small Arena;

provided that, in each of the cases above, “**Permitted Security**” shall not include any Security in respect of the Charged Property that ranks in respect to the Charged Property senior or equal to the Security created and subsisting under the Bond Security in the winding-up or insolvency of the Issuer the Co-obligor or Bestsport or in any enforcement proceedings in relation to the Charged Property.

“**Person**” means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated association, limited liability company or government or other entity.

“**Rabštejn**” means the Rabštejn nad Strelou castle in Plzeňský kraj, any and all land under and/or surrounding the Rabštejn nad Strelou castle any and all present and future property and/or buildings on such land, in each case owned by the Issuer.

“**SAZKA Arena**” means the multi purpose sports arena owned by Bestsport and the subject of the Amended Finance Lease Agreement located at Zelený Ostrov, Prague 9, Czech Republic, building No. 2345, built on plot of land No. 3343/35, registered in the Cadastral Register maintained by the Cadastral Office for the Municipality of Prague, Cadastral Department Prague, on ownership deed no. 7024, cadastral territory of Libeň, municipality of Prague.

“**Small Arena**” means the arena adjoining SAZKA Arena at Zelený Ostrov, Prague 9, Czech Republic, originally designed for training purposes, a building under construction, other construction built on plot of land No. 3343/32, registered in the Cadastral Register maintained by the Cadastral Office for the Municipality of Prague, Cadastral Department Prague, on ownership deed no. 7024, cadastral territory of Libeň, municipality of Prague.

“**Small Arena Asset Sale**” means any Asset Sale in full or in part of the Small Arena at fair market value (as determined in accordance with Condition 3(d)(ii) above) for cash.

“**Subsidiary**” means, in respect of any person (the “**first person**”) at any particular time, any other person (the “**second person**”):

- (a) *Control*: whose affairs and policies the first person controls or has the power to control (directly or indirectly), whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or
- (b) *Consolidation*: whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person.

“**Transaction Documents**” means the amended finance lease agreement to be between the Co-obligor and Bestsport dated the Issue Date (the “**Amended Finance Lease Agreement**”), the mandatory contribution agreement between the Issuer and the Co-obligor dated the Issue Date (the “**Mandatory Contribution Agreement**”), the management agreement between Bestsport and the Co-obligor dated the Issue Date (the “**Management Agreement**”), the amended and restated agreement on priority distribution of the Part of Proceeds between the Issuer and its shareholders dated the Issue Date (the “**Amended Priority Distribution Agreement**”), the amended and restated agreement on the priority use of payments between Bestsport and the shareholders of the Issuer, dated (the “**Amended Priority Payment Agreement**”), and the amended agreement between the Issuer and Český svaz tělesné výchovy dated the Issue Date (the “**Amended CSTV Cooperation Agreement**”).

“**Zelený Ostrov**” means any and all of the land located on Zelený Ostrov, Prague 9, Czech Republic adjoining SAZKA Arena, excluding the Arena Land, and any and all present and future property and/or buildings on such land.

“**Zelený Ostrov Asset Sale**” means any Asset Sale in full or in part of Zelený Ostrov at fair market value (as determined in accordance with Condition 3(d)(ii) above) for cash (including, for the avoidance of doubt, withdrawal and termination of any and all easements and/or rights of passage granted to Bestsport in relation to the Zelený Ostrov).

4 **Covenant Defeasance**

- (a) *Covenant Defeasance*: Each of the Issuer and the Co-obligor may, upon giving to the Trustee not less than 30 days notice, elect to have Condition 4(b) (*Effect of Covenant Defeasance*) applied to all outstanding Bonds upon compliance with the conditions set forth below in this Condition 4.

- (b) *Effect of Covenant Defeasance:* Upon any exercise of the option in Condition 4(a) (*Covenant Defeasance*), the Issuer, the Co-obligor and Bestsport shall each be released from its respective obligations under Conditions 3(a), 3(b), 3(c), 3(d), 3(e), 3(f), 3(g), 3(h), 3(k), 3(l), 3(m), 3(n) and 3(o) (the “**Relevant Conditions**”) with respect to the outstanding Bonds on and after the date the conditions set forth below in this Condition 4 are satisfied (hereinafter, “**Covenant Defeasance**”), and the Bonds shall thereafter be deemed not “outstanding” for the purposes of any direction, waiver, consent or declaration or act of Bondholders (and the consequences of any act thereof) in connection with the Relevant Conditions, but shall continue to be deemed “outstanding” for all the other purposes under these Conditions. For this purpose, “**Covenant Defeasance**” means that, with respect to the outstanding Bonds, the Issuer, the Co-obligor and Bestsport may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any Relevant Condition, whether directly or indirectly, by reason of any reference elsewhere in these Conditions to any Relevant Condition or by reason of any reference in any Relevant Condition to any other provision in these Conditions or in any other document and such omission to comply shall not constitute an Event of Default under Condition 9 (*Events of Default*) of these Conditions, but, except as specified above, the remainder of these Conditions and the outstanding Bonds shall be unaffected by this Condition 4. In addition, upon the exercise of the option in Condition 4(a) (*Covenant Defeasance*), Conditions 9(b) (*Breach of other obligations*), 9(c) (*Cross-default of the Issuer, the Co-obligor or Bestsport*), 9(d) (*Security enforced*), 9(e) (*Licences*) and 9(k) (*Unlawfulness or Invalidity*) of these Conditions shall cease to apply.
- (c) *Conditions to Covenant Defeasance:* Condition 4(b) (*Effect of Covenant Defeasance*) shall only apply to the outstanding Bonds if:
- (i) the Issuer and/or the Co-obligor, as the case may be, irrevocably deposits with the Trustee, in a designated euro and/or securities account in London in trust, for the benefit of the Bondholders cash in euro or securities that are (A) direct obligations denominated in euro of any member nation of the European Union rated at least “A-1” by Standard & Poor’s Ratings Service, a division of The McGraw-Hill Companies, Inc. (“**Standard & Poor’s**”) or “P-1” by Moody’s Investors Services Limited (“**Moody’s**”) for the timely payment of which its full faith and credit is pledged or (B) obligations denominated in euro of a person controlled or supervised by and acting as an agency or instrumentality of any member nation of the European Union rated at least “A-1” by Standard & Poor’s or “P-1” by Moody’s, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by such member nation and which are not callable or redeemable at the option of the issuer thereof (“**European Government Obligations**”) or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognised firm of independent public accountants, to pay all remaining unpaid Scheduled Redemption Amounts and Scheduled Interest Amounts on the relevant Interest Payment Dates together with any premium and any additional amounts due under Condition 8 (*Taxation*) and amounts necessary to cover the reasonable expenses of the Trustee, the Security Agent and the Paying Agents up to and including the final maturity of the Bonds (the “**Defeasance Trust Funds**”);
 - (ii) no Event of Default shall have occurred and be continuing on the date of the deposit of the Defeasance Trust Funds (other than an Event of Default which shall cease to be such as a result of such Covenant Defeasance);
 - (iii) such Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any agreement or instrument to which the Issuer or the Co-obligor is a party;
 - (iv) the Issuer and/or the Co-obligor, as the case may be, shall have delivered to the Trustee a certificate signed by the Chairman or Deputy Chairman of the Board of Directors of the Issuer or two members of the Executive Council of the Co-obligor, as the case may be, stating that the deposit was not made by the Issuer and/or the Co-obligor, as the case may be, with the intent of preferring Bondholders over any other creditors of the Issuer or with the intent of defeating, hindering, delaying or defrauding the Issuer’s creditors or others, or removing the Issuer’s assets beyond the reach of the Issuer’s creditors or increasing the Issuer’s debts to the detriment of the Issuer’s creditors;
 - (v) the Issuer and/or the Co-obligor, as the case may be, shall have delivered to the Trustee in a form satisfactory to the Trustee (A) a legal opinion of English counsel to the effect that the

trust funds will not be subject to any security in favour of persons other than Bondholders, Couponholders or holders of Receipts; and (B) a legal opinion of Czech counsel to the effect that the Defeasance Trust Funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganisation or similar laws affecting creditors' rights generally under applicable Czech law; and

- (vi) the Issuer and/or the Co-obligor, as the case may be, shall have delivered to the Trustee a certificate signed by the Chairman or Deputy Chairman of the Board of Directors of the Issuer or two members of the Executive Council of the Co-obligor, as the case may be, stating that all conditions precedent provided for relating to the Covenant Defeasance have been complied with.
- (d) *Defeasance Trust Funds; Other Miscellaneous Provisions:* Subject to Condition 4(e) (*Repayment to Issuer and/or Co-obligor*) below, all Defeasance Trust Funds deposited with the Trustee pursuant to Condition 4(c) (*Conditions to Covenant Defeasance*) above in respect of the outstanding Bonds shall be held in trust and applied by the Trustee, in accordance with the provisions of such Bonds and these Conditions, to the payment, either directly or through any Paying Agent as the Trustee may determine, to the Bondholders of such Bonds of all sums due and to become due thereon in respect of principal and interest, but such money need not be segregated from other funds except to the extent required by law.
- (e) *Repayment to Issuer and/or Co-obligor:* Anything in this Condition 4 to the contrary notwithstanding, the Trustee shall deliver or pay to the Issuer and/or the Co-obligor, as the case may be, from time to time upon the request of the Issuer and/or the Co-obligor, as the case may be, any portion of the Defeasance Trust Funds held by it as provided in Condition 4(c) (*Conditions to Covenant Defeasance*) above which, in the opinion of an internationally recognised firm of independent public accountants expressed in a written certification delivered to the Trustee (which may be the opinion delivered under Condition 4(c) (*Conditions to Covenant Defeasance*) above), are in excess of the amount that would be required to be deposited to effect an equivalent Covenant Defeasance.

The Trustee and the Paying Agents shall pay to the Issuer and/or the Co-obligor, as the case may be, upon written request any money held by them for the payment of principal or interest that remains unclaimed for two years, and, thereafter, subject to any applicable abandoned property law, Bondholders entitled to the money must look to the Issuer and/or the Co-obligor, as the case may be, for payment as general creditors and all liability of the Trustee and Paying Agents with respect to such money shall cease; provided, however, that the Trustee or such Paying Agents, before being required to make any such repayment, may at the expense of the Issuer and/or the Co-obligor, as the case may be, give notice to the Bondholders in accordance with Condition 15 (*Notices*) that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such notification, any unclaimed balance of such money then remaining shall be repaid to the Issuer and/or the Co-obligor, as the case may be.

- (f) *Reinstatement:* If the Trustee or Paying Agents are unable to apply any Defeasance Trust Funds in accordance with this Condition 4 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application or because at the date of such payment the Trustee would be obliged to return such monies to the Issuer and/or the Co-obligor, as the case may be, under applicable insolvency law, the Issuer's and/or the Co-obligor's obligations under these Conditions and the Bonds shall be revived and reinstated as though no deposit had occurred pursuant to this Condition 4, until such time as the Trustee or Paying Agents are permitted to apply such Defeasance Trust Funds in accordance with this Condition 4.
- (g) *Satisfaction and Discharge of the Bonds:* Upon the request of the Issuer and/or the Co-obligor, each of the Issuer and the Co-obligor will be discharged from its obligations under the Bonds and the Trustee, at the expense of the Issuer and/or the Co-obligor, as the case may be, will execute proper instruments acknowledging satisfaction and discharge of the Bonds when (a) either (i) all the Bonds have been delivered to the Paying Agents for cancellation or (ii) all the Bonds have become due and payable and the Issuer and/or the Co-obligor, as the case may be, has irrevocably deposited or caused to be deposited with the Trustee funds in trust for the purpose of payment of, and in an amount sufficient to pay and discharge the entire indebtedness on such Bonds and the Trust Deed, and (b) the Issuer and/or the Co-obligor, as the case may be, has paid or caused to be paid all sums payable under these Conditions and the Trust Deed by the Issuer and the Co-obligor.

5 Interest

- (a) *Scheduled Interest Payment*: The Bonds bear interest from and including the Issue Date at the rate of 9.00 per cent. per annum calculated on their outstanding principal amount, subject to adjustment pursuant to Condition 5(b) (*Adjustment of Rate of Interest*) (the “**Rate of Interest**”) and payable semi-annually in arrear on 12 January and 12 July in each year, or on the next Business Day if any of such dates fall on a day that is not a Business Day (each, an “**Interest Payment Date**”), subject as provided below and in Condition 7 (*Payments*).

Each Bond will cease to bear interest from and including the due date for redemption unless, upon due presentation, payment of principal in respect of the Bond is improperly withheld or refused, in which case it will continue to bear interest as provided in the Trust Deed.

The amount of interest payable on each Interest Payment Date shall be as follows in respect of each €50,000 in principal amount of Bonds, subject to adjustment pursuant to Condition 5(b) (*Adjustment of Rate of Interest*):

| <i>Interest Payment Date</i> | <i>Aggregate Interest Amount payable (each a “Scheduled Interest Amount”)</i> | <i>Amount of Interest Payable per €50,000 of Bonds</i> |
|------------------------------|---|--|
| 12 January 2007 | €9,754,521 | €2,268.49 |
| 12 July 2007 | €9,595,479 | €2,231.51 |
| 12 January 2008 | €9,754,521 | €2,268.49 |
| 12 July 2008 | €9,603,616 | €2,233.40 |
| 12 January 2009 | €9,663,781 | €2,247.39 |
| 12 July 2009 | €9,416,959 | €2,189.99 |
| 12 January 2010 | €9,482,301 | €2,205.19 |
| 12 July 2010 | €9,193,808 | €2,138.09 |
| 12 January 2011 | €9,210,082 | €2,141.88 |
| 12 July 2011 | €8,881,397 | €2,065.44 |
| 12 January 2012 | €8,847,123 | €2,057.47 |
| 12 July 2012 | €8,515,356 | €1,980.32 |
| 12 January 2013 | €8,370,740 | €1,946.68 |
| 12 July 2013 | €7,955,322 | €1,850.07 |
| 12 January 2014 | €7,803,616 | €1,814.79 |
| 12 July 2014 | €7,352,815 | €1,709.96 |
| 12 January 2015 | €7,145,753 | €1,661.80 |
| 12 July 2015 | €6,661,048 | €1,549.08 |
| 12 January 2016 | €6,397,151 | €1,487.71 |
| 12 July 2016 | €5,912,507 | €1,375.00 |
| 12 January 2017 | €5,557,808 | €1,292.51 |
| 12 July 2017 | €5,009,733 | €1,165.05 |
| 12 January 2018 | €4,627,726 | €1,076.22 |
| 12 July 2018 | €4,050,185 | €941.90 |
| 12 January 2019 | €3,606,904 | €838.81 |
| 12 July 2019 | €3,001,377 | €697.99 |
| 12 January 2020 | €2,495,342 | €580.31 |
| 12 July 2020 | €1,873,603 | €435.72 |
| 12 January 2021 | €1,293,041 | €300.71 |
| 12 July 2021 | €635,979 | €147.90 |

The Scheduled Interest Amount payable on any Interest Payment Date shall be adjusted to reflect (i) any redemption of Bonds pursuant to Condition 6(c) (*Redemption at the option of Bondholders upon a Change of Control*), (ii) any Bonds purchased and cancelled by the Issuer pursuant to Condition 6(f) (*Cancellation*) prior to such Interest Payment Date, and (iii) adjustments to the Rate of Interest under Condition 5(b) (*Adjustment of Rate of Interest*).

If interest is required to be paid in respect of a Bond other than on an Interest Payment Date, it shall be calculated by applying the Rate of Interest to the principal amount then outstanding of such Bond, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest Eurocent (half a Eurocent being rounded upwards), where:

“**Day Count Fraction**” means, in respect of any period, the actual number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the product of (i) the number of days in the Regular Period in which the relevant period falls and (ii) the number of Regular Periods in one year.

“**Regular Period**” means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the first or next Interest Payment Date.

(b) *Adjustment of Rate of Interest:*

- (i) If at any time prior to the Interest Payment Date immediately preceding the final maturity of the Bonds, the Average Credit Rating Value for the Bonds is equal to 3 or higher (a “**Rate of Interest Step Down Trigger**”), then the Rate of Interest will be adjusted to 9.00 minus 0.5 per cent. Following any Rate of Interest Step Down Trigger, if the Average Credit Rating Value for the Bonds is equal to 2 or lower (each, a “**Rate of Interest Step Up Trigger**”), then the Rate of Interest will be adjusted to 9.00 per cent.
- (ii) Any adjustment to the Rate of Interest under this Condition 5(b) shall take effect from the Interest Payment Date immediately following the Rate of Interest Step Down Trigger or Rate of Interest Step Up Trigger, as the case may be and shall be applied to the Rate of Interest in effect from such Interest Payment Date. The Issuer will notify Bondholders, the Trustee and the Principal Paying Agent upon any change in the Rate of Interest or Average Credit Rating Value in accordance with Condition 15 (*Notices*) and as required by any applicable rules of any stock exchange on which the Bonds are for the time being listed as soon as reasonably practicable after such change or appointment becomes effective.
- (iii) If the rating designations employed by either Standard & Poor’s or Moody’s are changed from those which are described in this Condition, the Issuer shall determine the rating designations of Standard & Poor’s or Moody’s (as appropriate) as are most nearly equivalent to the prior rating designations of Standard & Poor’s and Moody’s and, accordingly, the resulting Average Credit Rating Value and Rate of Interest which would apply to the Bonds.
- (iv) There shall be no limit on the number of times that the Rate of Interest may be adjusted during the term of the Bonds.
- (v) In the event that the Issuer certifies to the Trustee that the agreement between the Issuer and a rating agency under which such rating agency publishes a rating of the Bonds expires or is terminated, such rating agency’s rating of the Bonds shall for the purposes of this Condition be deemed to no longer exist from the date of such expiry or termination

“**Average Credit Rating Value**” means half of the sum of the Standard & Poor’s Rating Value and the Moody’s Rating Value, rounded down to the next whole number. In the event there exists solely a Standard & Poor’s Rating Value or solely a Moody’s Rating Value, such sole existing rating value shall be the Average Credit Rating Value. Further, in the event neither a Standard & Poor’s Rating Value nor a Moody’s Rating Value exists, the Average Credit Rating Value shall be 1.

“**Standard & Poor’s Rating Value**” means the numerical rating value assigned to the Bonds based on the credit rating of Standard & Poor’s (whether confirmed, under review, on credit watch or otherwise) in accordance with the table below.

“**Moody’s Rating Value**” means the numerical rating value assigned to the Bonds based on the credit rating of Moody’s (whether confirmed, under review, on credit watch or otherwise) in accordance with the table below.

| <i>Standard & Poor’s Credit Rating</i> | <i>Standard & Poor’s Rating Value</i> | <i>Moody’s Credit Rating</i> | <i>Moody’s Rating Value</i> |
|--|---|------------------------------|-----------------------------|
| B– or lower | 1 | B3 or lower | 1 |
| B | 2 | B2 | 2 |
| B+ | 3 | B1 | 3 |
| BB– | 4 | Ba | 4 |
| BB or higher | 5 | Ba3 or higher | 5 |

6 Redemption and Purchase

- (a) *Scheduled Redemption*: Unless previously redeemed or cancelled, the Bonds shall be repaid in instalments on each Interest Payment Date in the aggregate principal amounts specified below (each a “**Scheduled Redemption Amount**”), subject as provided in Condition 6(d) (*No other redemption*) and Condition 7 (*Payments*):

| <i>Interest Payment Date</i> | <i>Aggregate Scheduled Redemption Amount</i> | <i>Scheduled Redemption Amount per €50,000 of Bonds</i> |
|------------------------------|--|---|
| 12 January 2007 | €0 | €0.00 |
| 12 July 2007 | €0 | €0.00 |
| 12 January 2008 | €1,000,000 | €232.56 |
| 12 July 2008 | €1,000,000 | €232.56 |
| 12 January 2009 | €2,000,000 | €465.12 |
| 12 July 2009 | €2,000,000 | €465.12 |
| 12 January 2010 | €3,000,000 | €697.67 |
| 12 July 2010 | €3,000,000 | €697.67 |
| 12 January 2011 | €4,000,000 | €930.23 |
| 12 July 2011 | €4,000,000 | €930.23 |
| 12 January 2012 | €5,250,000 | €1,220.93 |
| 12 July 2012 | €5,250,000 | €1,220.93 |
| 12 January 2013 | €6,250,000 | €1,453.49 |
| 12 July 2013 | €6,250,000 | €1,453.49 |
| 12 January 2014 | €7,250,000 | €1,686.05 |
| 12 July 2014 | €7,250,000 | €1,686.05 |
| 12 January 2015 | €8,250,000 | €1,918.60 |
| 12 July 2015 | €8,250,000 | €1,918.60 |
| 12 January 2016 | €9,250,000 | €2,151.16 |
| 12 July 2016 | €9,250,000 | €2,151.16 |
| 12 January 2017 | €10,250,000 | €2,383.72 |
| 12 July 2017 | €10,250,000 | €2,383.72 |
| 12 January 2018 | €11,250,000 | €2,616.28 |
| 12 July 2018 | €11,250,000 | €2,616.28 |
| 12 January 2019 | €12,250,000 | €2,848.84 |
| 12 July 2019 | €12,250,000 | €2,848.84 |
| 12 January 2020 | €13,250,000 | €3,081.40 |
| 12 July 2020 | €13,250,000 | €3,081.40 |
| 12 January 2021 | €14,250,000 | €3,313.95 |
| 12 July 2021 | €14,250,000 | €3,313.95 |
| Total | €215,000,000 | €50,000 |

- (b) *Redemption for tax reasons*: Subject to the satisfaction of the Trustee that:

- (i) the Issuer or the Co-obligor has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) as a result of any change in, or amendment to, applicable laws or regulations or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date; and
- (ii) such obligation cannot be avoided by the Issuer or the Co-obligor, as the case may be, taking reasonable measures available to it;

the Bonds may be redeemed on any Business Day at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 15 (*Notices*) and to the Luxembourg Stock Exchange (which notice shall be irrevocable) at their principal amount outstanding, together with interest accrued to the date fixed for redemption, *provided, however, that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Co-obligor, as the case may be, would be obliged to pay such additional amounts if a payment in respect of the Bonds were then due and, provided further, that at the time such notice is given, the obligation to pay such additional amounts remains in effect.

Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer or the Co-obligor, as the case may be, shall deliver or procure that there is delivered to the Trustee:

- (1) a certificate signed by either the Chairman or Deputy Chairman of the Board of Directors of the Issuer or two members of the Executive Council of the Co-obligor, as the case may be, stating that the Issuer or the Co-obligor, as the case may be, is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer or the Co-obligor, as the case may be, so to redeem have occurred; and
- (2) an opinion (in form and substance satisfactory to the Trustee) of independent legal advisers of recognised standing to the effect that the Issuer or the Co-obligor, as the case may be, has or will become obliged to pay such additional amounts as a result of such change or amendment.

Upon the expiry of such notice as is referred to in this Condition 6(b) (*Redemption for tax reasons*), the Issuer shall be bound to redeem the Bonds in accordance with this Condition 6(b) (*Redemption for tax reasons*).

- (c) *Redemption at the option of Bondholders upon a Change of Control*: Upon the occurrence of a Change of Control, each Bondholder will have the right to require the Issuer and the Co-obligor to purchase, in whole but not in part, the Bondholder's Bonds on the next following Interest Payment Date, pursuant to the offer described below (the "**Change of Control Offer**"), at a purchase price in cash equal to 100 per cent. of the current principal amount thereof (the "**Change of Control Payment**").

Within 30 days following a Change of Control, the Issuer and the Co-obligor will give notice to each Bondholder, in the manner described under Condition 15 (*Notices*) below, and the Trustee, describing the transaction that constitutes the Change of Control and offering to purchase the Bonds on the date specified in such notice, which date shall be the next Interest Payment Date falling not less than 30 days after the date such notice is given (the "**Change of Control Put Settlement Date**"), pursuant to the procedures required by the Agency Agreement and described in such notice. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the Agency Agreement, the Issuer and the Co-obligor will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the Agency Agreement by virtue of such conflict.

On or before the Change of Control Put Settlement Date, the Issuer and the Co-obligor will, to the extent lawful:

- (a) accept for payment all Bonds properly tendered (by way of deposit by the relevant Bondholder with the Principal Paying Agent of such Bond together with all unmatured Coupons and Receipts relating thereto and a duly completed put option notice (a "**Change of Control Put Option Notice**") in the form obtainable from the Principal Paying Agent) pursuant to the Change of Control Offer;
- (b) deposit with the Principal Paying Agent an amount equal to the Change of Control Payment in respect of all Bonds so tendered; and
- (c) deliver or cause to be delivered to the Trustee the Bonds so accepted together with an officers' certificate stating the aggregate current principal amount of the Bonds being purchased by the Issuer and/or the Co-obligor, as the case may be.

The Principal Paying Agent will promptly deliver to each holder of the Bonds so tendered a duly completed receipt for such Bond (a "**Change of Control Put Option Receipt**") and the Change of Control Payment for such Bonds.

The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Put Settlement Date.

No Bond, once deposited with a duly completed Change of Control Put Option Notice in accordance with this Condition 6(c), may be withdrawn; *provided, however*, that if, prior to the Change of Control Put Settlement Date, any such Bond becomes immediately due and payable or, upon due presentation of any such Bond on the Change of Control Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, the Principal Paying Agent shall mail notification thereof to the depositing Bondholder at such address as may have been given by such Bondholder in the relevant Change of Control Put Option Notice and shall hold such Bond at its Specified Office for collection by the depositing Bondholder against surrender of the relevant Change of Control Put Option Receipt. For so long as any outstanding Bond is held by the Principal

Paying Agent in accordance with this Condition 6(c), the depositor of such Bond and not such Principal Paying Agent shall be deemed to be the holder of such Bond for all purposes.

The provisions described above that require the Issuer and the Co-obligor to make a Change of Control Offer following a Change of Control will be applicable regardless of whether any provisions of the Trust Deed are applicable.

A “**Change of Control**” will be deemed to have occurred upon the occurrence of any of the following:

- (a) the adoption, by holders of stock of the Issuer, of a voluntary plan relating to the liquidation or dissolution of the Issuer;
 - (b) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any person becomes the beneficial owner directly or indirectly through one or more intermediaries, of all or a portion of the shares of the Issuer held by CSTV as of the Issue Date; or
 - (c) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any shareholder of the Issuer transfers, sells or otherwise disposes of more than two per cent. of its beneficial interest in the Issuer as of the date of the Trust Deed.
- (d) *No other redemption:* The Issuer shall not be entitled to redeem the Bonds otherwise than as provided in Condition 3(d) (*Disposal of Assets*), Condition 6(a) (*Scheduled Redemption*), Condition 6(b) (*Redemption for tax reasons*) and Condition 6(c) (*Redemption at the option of Bondholders upon a Change of Control*) above or following a purchase pursuant to Condition 6(e) (*Purchase*). Following such redemption, the Aggregate Scheduled Redemption Amounts set out in (a) above shall be redeemed by the amount of the principal so redeemed applied *pro rata* to each Scheduled Redemption Amount payable from the next Interest Payment Date following such redemption.
- (e) *Purchase:* Each of the Issuer, the Co-obligor or any of its or their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise and at any price. Any Bonds so purchased will not entitle the holder to vote at any meetings of the Bondholders and will not be deemed to be outstanding for the purpose of calculating a quorum of meetings of Bondholders or for the purpose of Condition 9 (*Events of Default*), Condition 10 (*Enforcement*) or Condition 14 (*Meetings of Bondholders; Modification*). Any Bonds so purchased pursuant to Condition 3(d), Condition 6(c) or this paragraph (e) shall be surrendered to any Paying Agent for cancellation.
- (f) *Cancellation:* All Bonds purchased and surrendered pursuant to Condition 6(e) (*Purchase*) above by the Issuer or the Co-obligor, as the case may be, or any of their respective Subsidiaries and any unmatured Coupons and Receipts and unexchanged Talons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

7 Payments

- (a) *Principal:* Payment of Scheduled Redemption Amounts shall be made only against presentation of the relevant Bond and (provided that payment is made in full) surrender of the relevant Receipt or (if not made in full) endorsement of Bonds together with endorsement of the relevant Receipt in accordance with Condition 7(g) (*Partial payments*) at the Specified Office of any Paying Agent outside the United States (which expression in these Conditions includes its territories and possessions) by euro cheque mailed or delivered to an address outside the United States and drawn on, or by transfer to a euro account (or other account to which euro may be credited or transferred) maintained by the payee with, a bank located outside the United States in a city in which banks have access to the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) system (the “**TARGET System**”).

The Receipts are not and shall not in any circumstance be deemed to be documents of title and if separated from the Bond to which they appertain will not represent any obligation of the Issuer or the Co-obligor. Accordingly, the presentation of a Receipt without the Bond to which it appertains shall not entitle the holder thereof to any payment in respect of the relevant Scheduled Redemption Amount.

- (b) *Interest:* Payments of interest shall, subject to Condition 7(f) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (provided that payment is made in full) surrender or (if not made in full) endorsement in accordance with Condition 7(g) (*Partial payments*) of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in Condition 7(a) (*Principal*) above.
- (c) *Payments subject to fiscal laws:* All payments in respect of the Bonds 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 (*Taxation*). No commissions or expenses shall be charged to the Bondholders, Couponholders or holders of Receipts in respect of such payments.
- (d) *Deductions for unmatured Coupons or Talons:* If a Bond is presented without all unmatured Coupons or Talons relating thereto, a sum equal to the aggregate amount of the missing Coupons or Talons will be deducted from the amount of principal due for payment; provided, however, that, if the gross amount available for payment is less than the principal amount outstanding of such Bond, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the principal amount outstanding of such Bond. Each sum of principal so deducted shall be paid in the manner provided in Condition 7(a) (*Principal*) above against presentation and (provided that payment is made in full) surrender or (if not made in full) endorsement in accordance with Condition 7(g) (*Partial payments*) of the relevant missing Coupons at any time before the date falling 10 years after the Relevant Date (as defined in Condition 8 (*Taxation*)) in respect of the relevant Bond.
- (e) *Payments on business days:* If the due date for payment of any amount in respect of any Bond or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, “**business day**” means, a day on which commercial banks and foreign exchange markets are open in both (i) the city in which the specified office of the Principal Paying Agent (as defined in the Agency Agreement) is located and (ii) in respect of any place of presentation, any day on which commercial banks are open for presentation and payment of bearer debt securities and for dealing in foreign currencies in such place of presentation or, in the case of payment by transfer to a euro account as referred to above, a day on which the TARGET System is operating.
- (f) *Payments other than in respect of matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bonds at the Specified Office of any Paying Agent outside the United States.
- (g) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Bond, Coupon or Receipt presented to it for payment, or partial exchange of Coupons for a Talon such Paying Agent will endorse thereon a statement indicating the amount and date of such payment or exchange.
- (h) *Exchange of Talons:* On or after the Interest Payment Date of the final Coupon which is (or was at the time of issue) part of any coupon sheet relating to the Bonds (each a “**Coupon Sheet**”), the Talon which is (or was at the time of issue) part of such Coupon Sheet may be surrendered at the specified office of any of the Paying Agents in exchange for a further Coupon Sheet (including a further Talon, if applicable, but excluding any Coupons which shall have become void). Upon the due date for redemption in full of any bond in definitive form, any unmatured Talon relating to it shall become void and no Coupons will be delivered in respect of such Talon.

8 **Taxation**

All payments of principal and interest in respect of the Bonds and the Coupons by or on behalf of the Issuer or the Co-obligor (including payments to the Security Agent under Clause 5.4 of the Trust Deed) shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of the Czech Republic or any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer or the Co-obligor, as the case may be, shall pay to the Bondholders and the Couponholders such additional amounts as will result in the receipt by the Bondholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Bond or Coupon presented for payment:

- (a) by a holder, or by a third party on behalf of a holder, if such holder (i) is for tax purposes treated as a resident of the Czech Republic or (ii) is otherwise liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of having some connection with the Czech Republic other than the mere holding of such Bond or Coupon; or
- (b) by a holder, or by a third party on behalf of a holder, who would not be liable or subject to the withholding or deduction by providing a confirmation of its tax residency or other similar claim for exemption to the Issuer or the Co-obligor or the relevant tax authority; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) by a holder, or by a third party on behalf of a holder, who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a Member State of the European Union; or
- (e) where such withholding is imposed on a payment to an individual resident of Luxembourg pursuant to the Luxembourg Law dated 23 December 2005 introducing a withholding tax in full discharge of income tax on certain interest income; or
- (f) more than 30 days after the Relevant Date except to the extent that the holder of such Bond or Coupon would have been entitled to such additional amounts if it had presented such Bond or Coupon for payment on the last day of such period of 30 days.

In these conditions, “**Relevant Date**” means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Principal Paying Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Bondholders.

If the Issuer or the Co-obligor at any time becomes obliged to make a withholding or deduction for any taxes, duties, assessments or governmental charges in respect of the Bonds or Coupons in any jurisdiction other than the Czech Republic, references in this Condition 8 to the Czech Republic shall be construed as references to the Czech Republic and/or such other jurisdiction (as the case may be).

Any reference in these Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition 8 or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

9 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-half in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall (subject in each case to being indemnified to its satisfaction and, except in the case of the happening of the event described in subparagraph (a) or subparagraphs (f), (g) and (i) (other than the winding up or dissolution of Bestsport) below, only if the Trustee shall have certified in writing to the Issuer and the Co-obligor that such event is, in its opinion, materially prejudicial to the interests of the Bondholders) give notice to the Issuer and the Co-obligor that the Bonds are, and they shall accordingly thereby forthwith become, immediately due and repayable at their outstanding principal amount, together with accrued interest as provided in the Trust Deed, in any of the following events (“**Events of Default**”):

- (a) *Non-payment*: If the Issuer or the Co-obligor is in default for a period of more than five days in the payment of any principal or interest in respect of the Bonds or the Trust Deed or such other amounts due to Bondholders under Condition 6 (*Redemption and Purchase*) after the due date for payment therefor; or
- (b) *Breach of other obligations*: If the Issuer, the Co-obligor or Bestsport defaults in the performance or observance of any of its other obligations under or in respect of any Bond Document or any Transaction Document and (except in any case where the Trustee considers the failure to be incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) such default remains unremedied for a period of 30 days (or such longer period as the Trustee may permit) following the service by the Trustee on the Issuer or the Co-obligor, as the case may be, of notice requiring the same to be remedied (unless the Trustee considers the failure to be incapable of remedy); or

- (c) Cross-default of the Issuer, the Co-obligor or Bestsport:**
- (i)** if any Indebtedness of the Issuer, the Co-obligor or Bestsport is not paid when due or (as the case may be) within any originally applicable grace period;
 - (ii)** if any such Indebtedness becomes due and payable prior to its stated maturity by reason of an event of default, however described; or
 - (iii)** if the Issuer, the Co-obligor or Bestsport fails to pay when due any amount payable by it under any guarantee of any Indebtedness;
- provided* that (x) the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds €25 million (or its equivalent in any other currency or currencies); and (y) there shall not be deemed to be a default entitling the Trustee to give notice that any Bond has become due and payable (i) where the Issuer, the Co-obligor or Bestsport in good faith, claims a right of set-off or otherwise contests its obligations to pay such Indebtedness or (ii) if such acceleration is annulled or such payment or repayment is made within 10 days after written notice has been given by the Trustee regarding such breach; or
- (d) Security enforced:** If an encumbrancer or a receiver or a person with similar functions appointed for execution takes possession of all or substantially all of the assets or undertaking of the Issuer, the Co-obligor or Bestsport or a distress, execution or other process is levied or enforced upon or sued out against all or substantially all of the property or assets of the Issuer, the Co-obligor or Bestsport and is not paid, discharged, removed or stayed within 30 days (or such longer period as the Trustee may permit); or
 - (e) Licences:** Any licence required by the Issuer for gaming or lottery activity is terminated, revoked, suspended or expires (unless (in the case of a termination, revocation or expiration) the relevant licence is replaced with a licence permitting the holder to carry on the same or substantially the same activities or (in the case of a suspension) the suspension applying to the relevant licence is lifted, in each case within 60 days of that termination, revocation, suspension or expiration (as the case may be)) and, in any such case, such termination, revocation, suspension or expiration would be likely to have a Material Adverse Effect; or
 - (f) Bankruptcy:** Any procedure is commenced with a view to the winding-up, liquidation, dissolution or re-organisation (*přeměna*) (other than any frivolous or vexatious steps or proceedings, in each case initiated by any person other than the Issuer, the Co-obligor or Bestsport, a solvent re-organisation or re-organisation approved by the Trustee or an Extraordinary Resolution of the Bondholders) of the Issuer, the Co-obligor or Bestsport; or
 - (g) Administrators:** An administrator, *správce konkursní podstaty, vyrovnací správce* or similar officer is appointed in relation to the Issuer, the Co-obligor or Bestsport or in relation to all or substantially all of any of their respective assets and this appointment is not discharged within 45 days; or
 - (h) Inability to pay debts:** The Issuer, the Co-obligor or Bestsport is unable to, or admits its inability to, pay its debts generally as and when they fall due, or seeks a composition or arrangement with its creditors or any class of them; or
 - (i) Winding up, etc.:** An order is made or a resolution passed for the winding-up or dissolution of the Issuer, the Co-obligor or Bestsport except a winding-up or dissolution which has been approved by the Trustee or by an Extraordinary Resolution of the Bondholders; or
 - (j) Analogous Events:** Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Conditions 9(f), (g), (h) or (i); or
 - (k) Unlawfulness or Invalidity:** It becomes unlawful for the Issuer, the Co-obligor or Bestsport to perform or comply with its obligations under any Transaction Document to which it is party or to perform or comply with all or any of its obligations under the Bonds or any of such obligations at any time for any reason cease to be in full force and effect or are declared to be void or illegal or are repudiated or the legality, validity, priority, admissibility in evidence or enforceability of the Bonds are at any time contested by the Issuer and in any such case such unlawfulness, cessation, declaration, repudiation or contesting has a Material Adverse Effect and remains unremedied for a period of 60 days (or such longer period as the Trustee may permit).

10 Enforcement

The Trustee may at any time, at its discretion and without notice, take (or instruct the Security Agent to take) such proceedings against the Issuer, Bestsport or the Co-obligor as it may think fit to enforce the provisions of any Bond Document, but it shall not be bound to take (or instruct) any such proceedings or any other action in relation to the Trust Deed, the Bonds or the Coupons unless (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-half in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified to its satisfaction and the Security Agent has been indemnified and/or secured to the Security Agent's satisfaction, provided that to the extent the Trustee is so bound, equivalent proceedings by the Security Agent shall discharge the Trustee from such obligation; provided, however, that in the case of an enforcement of the Pledge Agreement, the Trustee may only take such proceedings against the Issuer, Bestsport or the Co-obligor where so specifically requested to do so by way of an Extraordinary Resolution or in writing by the holders of at least one half in principal amount of the Bonds then outstanding. The Security Agent shall take such proceedings against the Issuer or the Co-obligor as the Trustee may instruct to enforce the provisions of the Trust Deed but it shall not be bound to take (or instruct) any such proceedings or any other action in relation to the same unless it shall have been indemnified to its satisfaction.

No Bondholder, Couponholder or holder of Talons or Receipts shall be entitled to proceed directly against the Issuer, the Co-obligor or Bestsport unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing (or such obligation has not been discharged by the Security Agent within such period and the failure shall be continuing).

The Issuer and the Co-obligor have irrevocably and unconditionally undertaken in the Trust Deed to pay to the Security Agent the secured obligations including amounts owing under the Conditions as and when those amounts are due, so that the Security Agent shall be the obligee of such covenant to pay and shall be entitled to claim performance thereof in its own name (the "**Parallel Debt**"). Such obligations of the Issuer and the Co-obligor are several and separate and independent from, and do not in any way limit or affect, the corresponding obligations of the Issuer and the Co-obligor, nor are the amounts in respect of the Parallel Debt to be limited or affected in any way by amounts paid under the Conditions (the "**Corresponding Debt**"); *provided* that the Parallel Debt shall be decreased to the extent that each of their Corresponding Debt has been irrevocably paid; the Corresponding Debt shall be decreased to the extent that each of their Parallel Debt has been irrevocably paid and the amount of the Parallel Debt shall at all times be equal to the amount of the Corresponding Debt. All monies received or recovered by the Security Agent in respect of Parallel Debt, and all amounts received or recovered by the Security Agent from or by the enforcement of the Bond Security granted to secure the Parallel Debt, shall be paid to the Trustee under the terms of the Trust Deed.

Upon (i) the Bonds becoming immediately due and repayable pursuant to Condition 9 (*Events of Default*); or (ii) the Issuer and the Co-obligor failing to redeem the Bonds in full following the Bonds becoming repayable in full pursuant to Condition 6 (*Redemption and Purchase*), the Trustee may (subject to the first paragraph of this Condition 10 except as specifically provided below) in such circumstances, instruct the Security Agent to commence enforcement proceedings provided, that as between the Trustee and the Bondholders in relation to any enforcement in respect of the Charged Property including the disposal of the Charged Property (as defined in the Trust Deed) the Bondholders acknowledge (for the avoidance of doubt, notwithstanding the provisions of (a) in the first paragraph of Condition 10) that the Trustee shall first (i) endeavour to obtain (or instruct the Security Agent to obtain) legal, valuation and other relevant professional advice as to the relative merits of and likely costs and recovery under any different methods of enforcement of proceedings and/or disposal of the Charged Property reasonably available in the circumstances (provided that neither the Trustee nor the Security Agent shall be responsible for any such advice or for exercising the functions of such professionals and subject to being indemnified and/or secured to its satisfaction for obtaining such advice); and (ii) endeavour to provide the relevant information so obtained to the Bondholders and on provision of such information, shall seek directions from the Bondholders as to their preferred method of enforcement to be carried out. Following such directions, the Trustee shall instruct the Security Agent to carry out such enforcement proceedings in respect of the Charged Property in such manner as directed to the Trustee by the Bondholders. The Trustee shall have no responsibility for any delay or failure of the Bondholder to give such directions, nor shall

the Security Agent have any responsibility for such failure or for the failure of the Trustee to instruct the Security Agent despite the Trustee having received the direction of the Bondholders. In such circumstances the Security Agent shall take such action as is described in the Trust Deed and the Bond Security to enforce such security but it shall not be bound to take any such action unless it shall have been indemnified and/or secured to its satisfaction and subject further to the terms of the Trust Deed. The proceeds of enforcement of such security shall be apportioned *pari passu* and rateably between Bondholders and applied in the manner described in the Trust Deed and by the Trustee to the extent received by the Trustee. Any moneys so apportioned to Bonds which are not at that time due and payable shall be held by the Trustee on trust for the Bondholders as described in the Trust Deed.

11 Prescription

Claims for principal shall become void unless the relevant Bonds or Receipts are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

12 Replacement of Bonds, Coupons, Receipts and Talons

If any Bond, Coupon, Receipt or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, subject to all applicable laws, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer or the Co-obligor may reasonably require. Mutilated or defaced Bonds, Coupons, Receipts or Talons must be surrendered before replacements will be issued.

13 Paying Agents

In acting under the Agency Agreement and in connection with the Bonds, the Coupons, the Receipts and the Talons, the Paying Agents act solely as agents of the Issuer and the Co-obligor (and, in certain cases, the Trustee) and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders, Couponholders or holders of Receipts or Talons.

The initial Paying Agents and their initial Specified Office are listed below. The Issuer and the Co-obligor reserve the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the initial Paying Agents and to appoint additional or successor Paying Agents; *provided, however*, that the Issuer and the Co-obligor shall at all times maintain (a) a Paying Agent in Luxembourg and (b) a Paying Agent in a member state of the European Union 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 to the extent the same is brought into force, if there is such a member state of the European Union.

Notice of any change in the initial Paying Agents or their Specified Offices shall promptly be given to the Bondholders.

14 Meetings of Bondholders; Modification

- (a) *Meetings of Bondholders:* The Trust Deed contains provisions for convening meetings of Bondholders to consider matters relating to the Bonds, including (without limitation) the modification of any provision of the Bond Documents and the Transaction Documents. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by either the Issuer, the Co-obligor or the Trustee and shall be convened upon the request in writing of Bondholders holding not less than one-tenth of the aggregate principal amount of the outstanding Bonds. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than one half of the aggregate principal amount of the then outstanding Bonds, or at any adjourned meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented; *provided, however*, that any proposal to (i) change any date fixed for payment of principal or interest in respect of the Bonds, (ii) reduce or cancel the amount of principal or interest payable on any date in respect of the Bonds, (iii) alter the method of calculating the amount of any payment in respect of the Bonds or the date for any such payment, (iv) change the currency of payments under the Bonds, or (v) change the quorum requirements relating to meetings or the majority required to pass

an Extraordinary Resolution) may only be sanctioned by an Extraordinary Resolution where the quorum for such a meeting will be two or more persons holding or representing not less than 66⅔ per cent. of the aggregate principal amount of the then outstanding Bonds, or at any adjourned meeting, two or more persons holding or representing not less than 25 per cent. of the aggregate principal amount of the then outstanding Bonds. An Extraordinary Resolution shall be effective when passed by a majority of not less than 75 per cent. of the votes cast thereon. Any Extraordinary Resolution duly passed shall be binding on all the Bondholders, Couponholders and holders of Talons and Receipts, whether present or not.

In addition, a resolution in writing signed by or on behalf of 75 per cent. or more of the Bondholders who for the time being are entitled to receive notice of a meeting of Bondholders will take effect as if it were an Extraordinary Resolution and/or a resolution approved with respect to any proposal in this Condition 14(a). Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

- (b) *Modification:* The Trust Deed contains provisions under which the Trustee may agree, without the consent of the Bondholders, Couponholders or holders of Receipts, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Transaction Documents or the Bond Documents or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest or proven error.
- (c) *Interests of Bondholders as a class:* In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise by it of any of its trusts, powers, authorities and discretions on individual Bondholders, Couponholders or holders of Receipts (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Bondholder, Couponholder or a holder of a Receipt be entitled to claim, from the Issuer, the Co-obligor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise by the Trustee upon individual Bondholders or Couponholders except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.
- (d) *Notification to Bondholders:* Any modification, abrogation, waiver, authorisation or determination shall be binding on the Bondholders, the Couponholders and the holders of Receipts and, unless the Trustee agrees otherwise, any modification shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 15 (*Notices*).

15 Notices

All notices concerning the Bonds shall be valid if published, so long as the Bonds are listed and admitted for trading on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, in English in a leading newspaper having general circulation in Luxembourg (which is expected to be the *d'Wort*) or on the internet website of the Luxembourg Stock Exchange (www.bourse.lu). If any such publication is not practicable, notice shall be given in a leading English language daily newspaper having general circulation in Europe. If the Bonds are not listed and admitted for trading on the Luxembourg Stock Exchange, notice to the Bondholders shall be valid if published in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders, holders of Receipts and holders of Talons shall be deemed for all purposes to have notice of the contents of any notice given to the Bondholders.

16 Indemnification of the Trustee and its Contracting with the Issuer and the Co-obligor

The Trust Deed contains provisions for the indemnification of the Trustee and the Security Agent and for its respective relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer, the Co-obligor and/or any of their respective Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, the Co-obligor and/or any of their respective Subsidiaries, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Bondholders or Couponholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trustee will rely on the certificates signed by the Chairman or Deputy Chairman of the Board of Directors of the Issuer and on certificates signed by two members of the Executive Council of the Co-obligor, and the certificates of the Issuer's auditors in each case delivered to it pursuant to these Conditions and the Trust Deed and shall not be responsible for any failure otherwise to monitor compliance with the obligations imposed on the Issuer and/or the Co-obligor under these Conditions and/or Bestsport under the Trust Deed and particularly under Condition 3 (*Covenants*) and/or Clause 8 of the Trust Deed respectively, which the Trustee is not in a position to monitor.

The Trustee may retire at any time on giving the notice specified in the Trust Deed or may be removed by an Extraordinary Resolution of the Bondholders. The retirement or removal of the Trustee shall not become effective until a successor trustee is appointed. Notice of the replacement of the Trustee and the subsequent appointment of any successor trustee shall promptly be given to the Bondholders in accordance with Condition 15 (*Notices*) and to the Luxembourg Stock Exchange.

17 Limited Recourse and Non-Petition

The Trustee, the Security Agent and the Bondholders shall have recourse against the Co-obligor in respect of the Bonds and the other obligations of the Co-obligor pursuant to the Trust Deed and the other documents to which the Co-obligor and the Trustee and/or the Security Agent are a party, only to extent that there are sufficient Recoverable Funds and, the Trustee or Security Agent having recovered the same and distributed them in accordance with the Trust Deed, neither the Trustee, the Security Agent nor the Bondholders nor anyone acting on behalf of any of them shall be entitled to take any further steps against the Co-obligor to recover any further sum and no debt shall be owed by the Co-obligor in respect of such sum. In particular neither the Trustee, the Security Agent nor any Bondholder shall be entitled to petition or take any other step for the winding-up or other dissolution of the Co-obligor. In this Condition 17, "**Recoverable Funds**" means the aggregate amounts received by the Co-obligor from the Issuer under the Amended Mandatory Contribution Agreement which have not been used by the Co-obligor in settlement of its other liabilities under the Trust Deed and the Amended Finance Lease Agreement and amounts realised from the sale of Bestsport's shares upon enforcement of the Pledge Agreement.

18 Governing Law and Jurisdiction

- (a) *Governing law:* The Bond Documents (save for the Bond Security) are governed by, and shall be construed in accordance with, English law. The Bond Security and the Transaction Documents will be governed by the laws of the Czech Republic.
- (b) *Jurisdiction:* Each of the Issuer and the Co-obligor has in the Trust Deed agreed for the benefit of the Trustee, the Security Agent, the Bondholders, Couponholders and holders of Receipts that the courts of England shall have non-exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Bonds.
- (c) *Appropriate forum:* Each of the Issuer and the Co-obligor has in the Trust Deed irrevocably and unconditionally waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to settle any Disputes, and has agreed not to claim that any such court is not a convenient or appropriate forum and further irrevocably and unconditionally agree that a judgment in any proceedings ("**Proceedings**") brought in the courts of England shall be conclusive and binding upon the Issuer or the Co-obligor, as the case may be, and may be enforced in the courts of any other jurisdiction.
- (d) *Process agent:* Each of the Issuer and the Co-obligor has in the Trust Deed agreed that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Hackwood Secretaries Limited, One Silk Street, London EC2Y 8HQ.

- (e) *Consent to enforcement, etc.:* Each of the Issuer and the Co-obligor has in the Trust Deed consented 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 is made or given in such Proceedings.
- (f) *Non-exclusivity:* The submission to the jurisdiction of the courts of England herein and in the Trust Deed shall not (and shall not be construed so as to) limit the right of the Trustee or the Security Agent to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings by the Trustee or the Security Agent in any one or more jurisdictions preclude the taking of Proceedings by the Trustee or the Security Agent in any other jurisdiction (whether concurrently or not).
- (g) *Arbitration:* Each of the Issuer and the Co-obligor has in the Trust Deed agreed that any Disputes which may arise out of or in connection with the Trust Deed, the Bonds and/or the Coupons and/or the Receipts (including any questions regarding their existence, validity or termination) may, at the option of the Trustee or the Security Agent (as applicable), be referred to and finally resolved by arbitration under the Rules of the London Court of International Arbitration, which Rules are deemed to be incorporated by reference into the Trust Deed. The place of any such arbitration shall be London and the language English.

OVERVIEW OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Global Bond contains provisions that apply to the Bonds while represented by such Global Bond, some of which modify the effect of the Terms and Conditions of the Bonds in definitive form as set out in this Prospectus.

The Global Bond will become exchangeable in whole, but not in part, for Bonds in definitive bearer form (“**Definitive Bonds**”) in the denomination of €50,000 each if (a) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announce an intention permanently to cease business or (b) if the Bonds (or any of them) become due and payable in accordance with Condition 9 (*Events of Default*). Thereupon, the holder of the Global Bond may give notice to the Issuer of its intention to exchange the Global Bond for Definitive Bonds on or after the Exchange Date (as defined below).

Bondholders who hold Bonds in the relevant clearing system in amounts that are not integral multiples of €50,000 may need to purchase or sell, before the relevant Exchange Date, a principal amount of Bonds such that their holding is an integral multiple of €50,000.

“**Exchange Date**” means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in case of the exchange pursuant to (a) above, in the place in which the relevant clearing system is located.

The Global Bond will also become exchangeable, in whole but not in part only and at the option of the Issuer, for Definitive Bonds if the Issuer or the Co-obligor would suffer a disadvantage which would not be suffered if the Bonds were in definitive form and a certificate to such effect signed by either the Chairman or Deputy Chairman of the Board of Directors of the Issuer and two members of the Executive Council of the Co-obligor is delivered to the Trustee.

Whenever the Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the delivery (free of charge to the bearer) of such Definitive Bonds on the Exchange Date, duly authenticated and with Coupons and Receipts attached, in an aggregate principal amount equal to the principal amount of the Global Bond to the bearer of the Global Bond against the surrender of the Global Bond at the Specified Office of the Principal Paying Agent.

The Global Bond will contain provisions which modify the Terms and Conditions of the Bonds as they apply to the Global Bond. The following is an overview of certain of those provisions:

Payments: All payments in respect of the Global Bond will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Bond at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer and the Co-obligor in respect of the Bonds. On each occasion on which a payment of principal or interest is made in respect of the Global Bond, the Issuer or the Co-obligor shall procure that it is noted in a schedule thereto.

Notices: Notwithstanding Condition 15 (*Notices*), while all the Bonds are represented by the Global Bond and the Global Bond is deposited with a common depository for Euroclear and Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Bondholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg; *provided, however*, that, so long as the Bonds are listed and admitted for trading 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 published on the internet website of the Luxembourg Stock Exchange (*www.bourse.lu*).

Prescription: Claims against the Issuer and the Co-obligor in respect of principal and interest on the Bonds represented by the Global Bond will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date.

Meetings: At any meeting of the Bondholders, the holder of the Global Bond shall (unless the Global Bond represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each €1,000 principal amount of Bonds for which the Global Bond may be exchanged.

Cancellation: The cancellation of any Bond represented by the Global Bond and required by the Terms and Conditions of the Bonds to be cancelled following its redemption or purchase will be effected

by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the Global Bond on the relevant part of the schedule thereto.

Euroclear and Clearstream, Luxembourg: Bonds represented by the Global Bond are transferable in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as appropriate. References in the Global Bond and this overview to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system through which interests in the Bonds are held.

So long as the Bonds are represented by a Global Bond and the relevant clearing system(s) so permit, the Bonds shall be tradeable only in principal nominal amounts of at least €50,000 (or its equivalent in any other currency) provided hereon and integral multiples of €1,000 above €50,000.

Trustee's Powers: In considering the interests of Bondholders whilst the Global Bond is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Bond and may consider such interests as if such accountholders with a holder of the Bonds represented by such Global Bond.

Options: The options contained in Conditions 3(d)(v) and 6(c) may be exercised by the holder of the relevant Global Bond giving notice to the Principal Paying Agent or the Paying Agent in Luxembourg of the principal amount of Bonds in respect of which the option is exercised and presenting such Global Bond for endorsement of exercise within the time limit specified in such Condition.

USE OF PROCEEDS

The gross proceeds from the issue of the Bonds will be lent by the Issuer to Bestsport under the Loan Agreement to support their treatment as “good cause payments” set out by the Lotteries Act and certain licences issued to SAZKA. Bestsport will use the amounts received from the Issuer under the Loan Agreement to immediately repay (a) all outstanding amounts owed by Bestsport to the Issuer under a loan agreement entered into in connection with the Original Bonds (the “**Original Bond Loan Agreement**”) and (b) part of the outstanding obligations owed by Bestsport to the Issuer under a loan agreement, which was entered into to fund the construction of the SAZKA Arena.

The Issuer will use the amounts repaid by Bestsport (i) to redeem the Original Bonds, (ii) to pay fees and expenses related to the redemption of the Original Bonds and the issue of the Bonds, and (iii) remaining sums for general corporate purposes.

DESCRIPTION OF SAZKA

History

SAZKA was established by the State Committee for Physical Education and Sport on 3 August 1956 and began operations on 15 September 1956 with a core business of organising bets on the outcome of sports events. In October of the same year, SAZKA marketed its first betting game, “*Sazka*”. In April 1957, SAZKA expanded its activities to include its first number lottery, “*Sportka*”. SAZKA still runs these two games. In anticipation of the dissolution of the Czechoslovak Federation as at 1 January 1993, the business of SAZKA was divided into two separate Czech and Slovak divisions. The Czech part of SAZKA was transformed into a joint stock company on 27 November 1992, when it was established by means of a Memorandum of Association between the Czech Physical Education Union and the Czech Sokol Community. All of the shareholders in SAZKA are civic associations involved in Czech sport and physical education. SAZKA was registered in the Czech Commercial Registry and launched its operations on 15 February 1993. SAZKA’s registered office is at K Žižkovu 851, 190 93, Prague 9, Czech Republic and the telephone number of its registered office is +420 266 12 11 11. SAZKA is domiciled in the Czech Republic and its registration number is 47116307.

SAZKA’s principal business pursuant to Article 4 of its Articles of Association is the operation of sports and odds betting games and number and instant lotteries in accordance with the Lotteries Act. SAZKA is the largest domestic operator of number and instant lotteries, and it also remains one of the largest bookmakers in the Czech Republic. SAZKA also conducts non-gaming businesses, including recharging mobile telephone credits, and is continuing to expand its non-gaming business activities.

SAZKA’s primary objective is to provide financial support to Czech sport and physical education out of the proceeds of the lotteries and games it operates. SAZKA is the largest private provider of such funding in the Czech Republic. Under the Lotteries Act, a Part of Proceeds of the lotteries and games shall be distributed to social, healthcare, sports, environmental, cultural or other publicly beneficial causes. These causes are collectively referred to herein as “good causes” and payments to entities supporting such “good causes” are referred to as “good cause payments”. In addition to sponsoring sport and physical education, SAZKA is currently contributing to significant social, cultural and charity projects.

Business Overview

SAZKA’s principal scope of business is the operation of number lotteries, instant lotteries, sports betting games and interactive games in the Czech Republic. By virtue of its nearly 50-year history as the principal provider of odds betting games and lotteries, SAZKA has developed know-how and understanding of the Czech gaming market. SAZKA’s customer base is comprised of a stable pool of bettors and gamers from broad socio-economic backgrounds. Management believes SAZKA enjoys good brand perception. Following the liberalisation of the Czech gaming market in 1990, this stable customer base, together with SAZKA’s ability to take advantage of business opportunities, has enabled SAZKA to compete with new market entrants and to maintain a leading position in both volume and revenue in the Czech gaming market.

SAZKA has a unique position in the Czech gaming market due to its historical position as a former state monopoly. In 2005, SAZKA’s activities accounted for approximately 8.3 per cent. of the Czech gaming industry. SAZKA is currently the largest operator by volume of number lotteries and instant lotteries in the Czech Republic offering its clients a diverse array of games and wagers. SAZKA operates four number lotteries plus two linked lottery games, three sports odds betting games, the SAZKA betting game, and operates five instant lotteries. Gross profit from its gaming activities represented 87.2 per cent. of SAZKA’s overall gross profit in 2005. SAZKA’s key lottery game is *Sportka*, a number lottery with revenues of approximately 68.54 per cent. of SAZKA’s total revenues from gaming activities in 2005. In 2005, SAZKA generated revenues totalling CZK 8,737,157,000 (€301,229,339.70), of which CZK 7,368,906,000 (€254,056,404) came from its gaming activities. Gross profit in 2005 was CZK 1,612,028,000 (€55,577,590) of which CZK 1,405,658,000 (€48,462,610) came from its gaming activities. Apart from its wide online distribution network that included 7,072 terminals as of 31 December 2005, SAZKA also operates a recently introduced electronic validation system for the sale of tickets for its various games and non-gaming products and services and undertakes the charging of mobile telephone charge cards, which it is also considering undertaking in Russia. In addition, it is also considering using its lottery management expertise to provide consultancy services to Russian lottery operators.

In recent years, SAZKA has entered the highly competitive odds betting market segment. However, due to penetration of the Czech market by foreign competition via the Internet, SAZKA has decided, instead of pursuing a strategy of increasing its market share, to focus on increasing profitability of its odds betting products. In 2004, SAZKA introduced a 10 per cent. handling fee on betting transactions, which is standard among its competitors.

SAZKA's primary goals for the future are to maintain its leading position in the Czech number lotteries market, to increase the revenues from sales of its instant lottery products. In 2005, SAZKA also launched a network of interactive online video-lottery terminals, connected to a central lottery system. The advantage of video lottery terminals over traditional slot machines is that via their connection to a central online system, SAZKA can operate a jackpot build-up and a more efficient system for downloading new games. Video lottery terminals are targeted to attract players from the slot machine market, the largest portion of the Czech gaming market.

SAZKA's operations are governed by the Lotteries Act. SAZKA's income from its gaming operations is tax-exempt under the Czech Income Taxes Act. However, a levy on proceeds of SAZKA's gaming activities is distributed annually for "good causes", the minimum amount of which equals 20 per cent. of the amount by which its revenues from gaming activities exceed related costs, namely the amount of prizes, administrative fees, local charges and the cost of state supervision. As SAZKA's shareholders are exclusively civic associations engaged in sports and physical education, they are entitled to receive "good cause payments", making SAZKA the largest non-state contributor to the Czech Republic's sports budget.

SAZKA also undertakes certain non-gaming operations, such as recharging of mobile telephone credits, generating more than 80 per cent. of revenue in this market, and selling advance ticket bookings for sports and cultural events. SAZKA plans to expand its non-gaming activities to include the payment of telephone, utility, insurance and other bills via its terminals in order to diversify its revenues. However, unlike SAZKA's gaming business, profits from these activities were subject to corporate income tax at a rate of 26 per cent. of pre tax income in 2005 and management estimates profits from these activities will be subject to corporate income tax of 24 per cent. of pre tax income in 2006. These profits do not form part of profits that can be distributed as "good cause payments".

For the year ended 31 December 2005, SAZKA generated consolidated net income of CZK 1,536,045,000 (€52,957,938.28), an increase as compared to SAZKA's consolidated net income for 2004, which was CZK 1,306,124,000 (€45,030,994.65). A price increase of 1.14 per cent. in *Sportka* bets in 2004 from CZK 14 to CZK 15 led to a reduction in the number of placed bets and the frequency of jackpot payouts in *Sportka*, as opposed to the significant accumulation of jackpots in 2003 that resulted in significant wagering activity in that year.

Frequent payouts result in lower jackpots, which management believes do not motivate the members of the public to place bets.

However this price increase has not negatively impacted SAZKA's operating and financial results in the long term, and the average level of jackpots at 31 December 2005 has now returned to those prevalent in 2003.

The portion of pre-tax profits from SAZKA's taxable non-gaming operations, decreased from CZK 196,456,000 (€6,773,177) at 31 December 2004 to CZK 2,163,000 (€74,573) at 31 December 2005, or 98.9 per cent. This was primarily due to revenues from SAZKA's mobile phone credit recharging service, and this partially offset the decline of profit from gaming operations for the same period. In 2004, good cause payments totalled a record CZK 1,390,551,000 (€47,941,769), including the distribution of unpaid good causes payments for the period 1999 — 2003 and CZK 490,894,000 (€16,924,461) as the first payment of amortised principal and interest on the Original Bonds. The use of proceeds to support "good causes" for the year ended 31 December 2005 is approximately CZK 1,324,625,000 (€45,668,850).

SAZKA's current principal project in the support of "good causes" is the financing of the acquisition of SAZKA Arena by OSZO by means of the Mandatory Contribution Agreement and Amended Finance Lease Agreement.

Recent Developments

SAZKA recently announced unaudited unconsolidated financial results for the first quarter of the 2006 financial year. These included a net profit of CZK 583.2 million (€20.4 million), a 35.4% increase of over CZK 152 million (€5.32 million) in comparison to the first quarter of the 2005 financial year.

Proceeds contributed to shareholders (civic associations active in the sports industries) amounted to CZK 290 million (€10.14 million) for the period commencing 1 January to 30 April 2006. (These euro figures are based on the Czech National Bank exchange rate as of 31 March 2006: EUR 1.=CZK 28.595).

These results have not been audited by the auditors of SAZKA, and have not been prepared on the same basis as the audited consolidated financial statements of SAZKA as of and for the years ended 31 December 2005 and 2004. No assurance can be given that these results will not differ materially from the corresponding results that will be published by SAZKA in its audited consolidated financial statements as of and for 31 December 2006, as and when such financial statements are published.

Competitive Strengths

Management believes that SAZKA's competitive strengths include:

- *Product innovation:* SAZKA has demonstrated an ability to develop and launch new gaming products to drive the growth in demand for its services. For example, SAZKA has driven lottery sales through the introduction of new games, increasing the *Sportka* jackpot by means of adding premiums to attract more customers and through the introduction of new linked games. SAZKA's interactive VLT network is also expected to be another growth area and an example of SAZKA's track record of innovation.
- *Technical leadership:* SAZKA's electronic validation system, new sales technology and the implementation of the SAP R/3 logistics models which have been key elements in making its distribution system more efficient. The interconnection of the SAP R/3 system with SAZKA's GTECH system has produced a dealer procurement system (especially for instant lottery tickets) with shorter delivery periods, more effective distribution, and improved telemarketing and mass billing capabilities (see “— *Central Database and Terminals Network*” and “— *Cooperation with GTECH Corporation*”).
- *Marketing and brand management:* SAZKA's strong media and public image is due to its public relations strategy, shareholder activities and its involvement in “good causes”, including the launch of SAZKA's new digital television studio, where lottery draws are held in the presence of a notary and a state supervisor with the recording of the draw forwarded to television companies for nationwide broadcasting.
- *Distribution footprint:* The availability of SAZKA's terminals and sales outlets throughout the Czech Republic enables SAZKA to offer an extensive and diverse sales network to increase SAZKA's market position in existing and future non-lottery activities.

Strategy

SAZKA's core strategy is to maintain and enhance its position as the leading Czech gaming company contributing to the public good. Management's strategic goal is to maintain a balanced gaming portfolio that ensures an acceptable level of profits and stability and managed growth in selected non-gaming and gaming services.

In the near future, as part of the implementation of its business strategy, SAZKA intends to:

- implement a new central lottery system for its traditional gaming products and an additional central system for the STARPORT games to which up to 10,000 additional STARPORT interactive video-lottery terminals will be connected in the next four to five years in order to penetrate a new Czech gambling market segment;
- increase revenues from the *Sportka* game by targeted promotional campaigns and by adding jackpot premiums to attract more customers;
- launch new number lotteries and games and further develop market share and profitability in the odds betting market segment;
- introduce an incentive scheme for the evaluation for SAZKA's agents and an evaluation system for its suppliers to reduce costs;
- closely monitor legislative and regulatory change in order to identify opportunities to develop interactive distribution platforms; and
- introduce a customer loyalty programme covering both gaming and non-gaming activities.

SAZKA's Products

SAZKA has a broad portfolio of gaming products consisting of number lotteries, instant lotteries, odds betting games and interactive games. The table below describes SAZKA's main games:

| <i>Name</i> | <i>Category</i> | <i>Description</i> |
|---------------------------------|-----------------|---|
| <i>Sportka (6/49)</i> | Number lottery | This game involves the player betting on 6 numbers out of 49. There are two drawings and 6+1 winning numbers (lotto type). |
| <i>Euromilióny (7/35 + 1/5)</i> | Number lottery | This game involves the player betting on 7 numbers out of 35 numbers and, separately, on 1 number out of 5 numbers (multiple lotto type). |
| <i>Št'astných 10</i> | Number lottery | This game involves the player betting on 1 to 10 numbers out of 80 numbers, of which 20 winning numbers are drawn (Keno type). |
| <i>Keno</i> | Number lottery | This game involves the player betting on 1 to 7 numbers out of 56 numbers, of which 12 winning numbers are drawn (Keno type). |
| <i>Šance</i> | Number lottery | This is a linked game which the player can play as a supplement to <i>Sportka</i> and <i>Sazka</i> . The game involves each player betting on six digits included in the serial code number of his lottery ticket (Joker type). |
| <i>Šance milion</i> | Number lottery | This is a linked game which the player can play as a supplement to <i>Stastnych 10</i> . The game involves the player betting on six digits included in the serial code number of his lottery ticket (Joker type). |
| <i>Sazka</i> | Number lottery | This game involves betting on the results of 13 sports matches with the result win, draw or loss. |
| <i>Sazka Výběr</i> | Odds betting | This game involves the player betting on the result of sport events, draw; visiting team wins; home team wins; visiting team does not win; host team does not win. Players can also bet on certain other aspects of the event (such as the goal difference, qualifying team, best player, etc). |
| <i>Skóre Plus</i> | Odds betting | The player wins if they find the exact scores of 5 sports matches. |
| <i>Sázka na vítěze</i> | Odds betting | This game involves the player betting on the winner of certain sporting and other events. |
| <i>Št'astná čísla II</i> | Instant lottery | The ticket has two game fields. The first field contains a number and the second field has the shape of a treasure chest. Both the fields are covered with a non-transparent scratch film. The film covers printed digits from 1 to 9 (the "Symbols"). Should the first field contain one or more Symbols corresponding to the number stated on the ticket, the player wins. The final amount of the winnings is the multiple of the number of identical symbols stated in the first field and the amount stated in the second field (i.e., in a treasury chest). |
| <i>T-Mobile RENTA</i> | Instant lottery | Tickets cost CZK 30. Players win if they find three identical symbols/amounts. If players find three telephones, they advance to the drawing for one-time winnings. If players find three televisions, they advance to the drawing to win a regular monthly financial reward. |
| <i>Horoskopy III</i> | Instant lottery | There are 12 graphic designs for the 12 signs of the zodiac. The system is based on scratching or rubbing off the security film to reveal three identical parts. The lottery fully replaced the very popular Planet of Fortune, Planet of Fortune II, Horoscope and Horoscope II lotteries. The player searches for three identical parts out of the nine possible choices on the ticket. |
| <i>Kámen Nůžky Papír</i> | Instant lottery | The ticket wins if its game field placed in its lower part contains in any game a winning combination that is: if there is a rock in the first part of the row marked "Player" and scissors in the second part of the row marked "Opponent", or if there is paper in the first part of the row and a rock in the second part of the row, or if there are scissors in the first part of the row and paper in the second part of the row. Other combinations (including identical symbols) are non-winning. The amount of the player's winnings is stated in the third part of the relevant row. Every game is evaluated separately, thus the ticket offers three chances to win with the possibility of multiple winnings. |
| <i>Pokušení</i> | Instant lottery | Instant lottery with the system "wipe off 3" to win, the player must reveal 3 identical symbols. |
| <i>Vegas</i> | Instant lottery | Tickets cost CZK 20. The tickets have two game fields covered with a non-transparent scratch film. There are three variations of the lottery tickets; the first variant contains the games Roulette and Dice; the second variation contains the games Dice and Jackpot; and the third variation contains the games Jackpot and Roulette. For the game Roulette, the fields to be scratched are the fields Roulette and the fields Bet 1 to 3. The scratch field Bet 1 to 3 contains a gaming symbol and an amount in CZK under the relevant symbol. The player wins if some of the numbers in the scratch field Bet 1 to 3 tally with the number contained in the scratch field Roulette. For the game Dice, the player wins if the scratch field shows a winning combination defined in the table. For the game Jackpot, the player wins the amount stated in the Jackpot winnings table if the scratch field shows three identical symbols. |
| <i>STARPORT</i> | Interactive | Interactive videolottery — 20 different games and a system jackpot marketed through the IVT system. Drawing occurs immediately upon request of the player. Includes various of types of games (casino games, desk games, symbol games, sport games, numeric games, entertaining games) |

The following table sets forth the revenue of SAZKA for each of its games for each of the years ended 31 December 2004 and 2005:

Total revenues (CZK)

| <i>Product</i> | <i>Year ended 31 December,</i> | |
|--|--------------------------------|-----------------------------|
| | <i>2004</i> | <i>2005</i> |
| <i>Number Lotteries</i> | | |
| Sportka (Lotto 6/49) | 3,827,986,000 | 5,050,954,000 |
| Šance (Chance) | 212,249,000 | 301,871,000 |
| Šťastných 10 (Lucky 10) | 1,122,483,000 | 1,135,006,000 |
| Šance Milion (One Million Chance) | 53,631,000 | 58,167,000 |
| Keno | 281,911,000 | 249,716,000 |
| Euromilióny (Euromillions) | 185,980,000 | 143,675,000 |
| Sazka | 25,035,000 | 20,738,000 |
| Subtotal | <u>5,709,275,000</u> | <u>6,960,127,000</u> |
| <i>Odds Betting</i> | | |
| Sazka výběr (Sazka Select) | 650,477,000 | 383,258,000 |
| Skóre plus (Score Plus) | 2,880,000 | 1,488,000 |
| Sázka na vítěze (Bet on the Winner) | 5,881,000 | 2,686,000 |
| Subtotal | <u>659,238,000</u> | <u>387,432,000</u> |
| <i>Instant Lotteries</i> | | |
| Panna-Orel (Heads or Tails) | — | — |
| Šťastná čísla (Lucky Numbers) | — | — |
| Sběratelská loterie (Collector's Lottery) | — | — |
| Srdíčko (Heart) | — | — |
| Trezor (Safe) | — | — |
| Horoskopy II (Horoscopes II) | 172,459,000 | — |
| Kasino (Casino) | 128,945,000 | — |
| Fantazie (Fantasy) | 1,631,000 | — |
| Subtotal | <u>303,035,000</u> | <u>0</u> |
| <i>Games machines (IVT, Starport)</i> | 3,579,000 | 21,347,000 |
| Total revenues | <u>6,675,127,000</u> | <u>7,368,906,000</u> |
| Instant lotteries revenues carried forward | 399,483,000 | 661,031,000 |

Revenues from gaming activities

For the year ended 31 December 2005, SAZKA's realised total revenues from its lottery and gaming activities of CZK 7,368,906,000 (€254,056,404). This amount includes prizes won by bettors but not yet paid out by SAZKA equal to CZK 81,153,921 (€2,797,929) and a service charge of CZK 34,940,470 (€1,204,636).

Revenues from number lotteries

For the year ended 31 December 2005, number lottery revenues amounted to CZK 6,960,127,000 (€239,963,006), or 94.45 per cent. of the total revenues for gaming activities. *Sportka* accounted for CZK 5,050,954,000 (€174,140,803.30), or 68.54 per cent. of the total revenues from gaming activities and *Šťastných 10* accounted for CZK 1,135,006,000 (€39,131,391.13), or 15.40 per cent. of total revenues from gaming activities. As a result, these two number lotteries were SAZKA's core products in terms of revenue. *Keno* generated revenues of CZK 249,716,000 (€8,609,412.17), or 3.39 per cent. of total revenues from gaming activities for this period.

Odds betting revenues

For the year ended 31 December 2005, odds betting accounted for CZK 387,432,000 (€13,357,421.13), or 5.26 per cent. of SAZKA's total revenues from its gaming activities. The number of outlets that receive odds betting wagers was 1,037 online terminals out of the total number of 6,973 online terminals as at 31 December 2004, and 1,071 out of 7,072 as at 31 December 2005, respectively. SAZKA intends to increase the proportion of sports betting across its network through the provision of more sports lottery outlets.

Instant lottery revenues

For the year ended 31 December 2005, instant lotteries generated revenue of CZK 661,031,000 (€22,790,243), which accounted for 8.97 per cent. of SAZKA's total revenues from its gaming activities and represent revenue carried forward.

Changes in taxation laws

Due to changes to Czech taxation laws made in connection with the Czech Republic's accession to the European Union, since 1 January 2005, SAZKA can no longer claim VAT from the State budget on expenses incurred in relation to operating betting and lottery activities. This has reduced SAZKA's profits from betting and lottery activities in comparison with previous years, and consequently affects the amount of distributions to be made as Part of Proceeds to SAZKA's shareholders.

Distribution Channels

As at 31 December 2005, there were 7,072 terminals (1,071 of which offered odds betting) installed in 6,974 selling points (of which 1,027 offered odds betting). The following table sets out the regional distribution of SAZKA sales terminals in the Czech Republic as at 31 December 2005:

| <u>Region</u> | <u>Number of terminals</u> |
|---|----------------------------|
| Prague and the region of Central Bohemia | 1,616 |
| České Budějovice | 518 |
| Plzeň | 657 |
| Ústí nad Labem | 932 |
| Hradec Králové | 878 |
| Brno | 1,330 |
| Ostrava | 1,141 |
| Total number of terminals | 7,072 |
| <i>Total number offering odds betting</i> | <i>1,071</i> |

SAZKA accepts stakes from bettors through terminals installed in agents' outlets under an agency contract (see — "*Relationship with Agents*"). The agents accept stakes from customers, pay out minor prizes, provide information and sales support to customers, and settle complaints and minor claims.

The largest numbers of sales points are installed in, and the highest amounts of stakes are accepted by, tobacconists, betting agencies and post offices. The chief business partner and dealer for SAZKA's products is Česká Pošta, s.p. (Czech Post), whose current share of bets amounted to 17 per cent. in 2005. SAZKA has been continuously improving its distribution network to increase revenues per terminal, focusing on gasoline stations, supermarkets, hypermarkets and shopping centres. High levels of betting and revenues per terminal are achieved at major retail chains such as Ahold, Kaufland, Globus, Tesco, Carrefour and Interspar due to a high concentration of customers. With regard to supplier relations, irrespective of whether they supply gaming facilities and equipment or other commodities, the relevant contracts provide SAZKA with a 90-day payment period. All suppliers are subject to strict tenders in compliance with SAZKA's internal regulations to ensure objectivity in the tendering procedure and the most favourable terms and conditions for SAZKA.

Relationship with agents

SAZKA enters into a dealership contract with its agents for every installed terminal. These contracts are identical for all sales points, are executed for an indefinite period of time, and include the amount of the agency fee, terms of payment and the amount of the operating security deposit provided by the agents with respect to each terminal. SAZKA also has the right to monitor how a dealer performs its obligations under the contracts. Each agent is obliged to make a security deposit with SAZKA equal to one week's sales from its terminal to secure SAZKA's receivables in the event that the sales are retained by the agent. The deposit bears interest and is returned to the dealer if the dealer relationship ends.

Agents must comply with the Lotteries Act and must also adhere to SAZKA's manuals. SAZKA equips its agents with the terminals and is responsible for servicing and maintaining them. In addition, SAZKA provides promotional and informative materials for the sales points, installs signage on the sales points and trains the personnel in the operation of the terminals. Most contact between SAZKA and its agents is via regional centres located in Prague, České Budějovice, Plzeň, Ústí nad Labem, Hradec Králové, Brno and Ostrava.

Agents accepting stakes are entitled to a fee determined as a share in (i) the stakes accepted by the appropriate terminal and (ii) the prizes paid out. Two sales zones for two size categories of agent have been set for calculating the fee related to stakes with the agents achieving higher sales receiving fees calculated at a higher percentage. The settlement of accounts typically takes place at weekly intervals using documentation from SAZKA's central records.

Sales Policy

In 2001, SAZKA entered into an agreement with GTECH for the creation of an on-line sales system which was subsequently upgraded in 2002, 2003 and 2005.

In 2002, SAZKA upgraded its instant lottery validation system and concluded new agency agreements with its agents to take into account the new validation system and further develop non-gaming activities. The instant validation of lottery tickets protects SAZKA's agent from attempts to acquire winnings using forged tickets. There was also an improvement in the overview of ticket sales at specific sales outlets, allowing SAZKA to optimise warehouse stocks of tickets and reduce distribution costs. In conjunction with the launch of this new validation system, SAZKA set up a telemarketing unit in order to optimise ticket stocks, control sales and maintain active contact with sales outlets, and increase sales of all its gaming products.

In 2002, SAZKA also started selling non-gaming products via its online terminals with the prepayment of phone cards and, since 2004, ticketing. Currently, mobile phone recharging services are provided for all of the Czech mobile operators. A key part of SAZKA's strategy is to expand the sale of non-lottery services on its network.

Technological Support

Central database and terminals network

The conversion of the current on-line system, consisting of the installation of new hardware and software for the central lottery system and the replacement of the old electronic terminals by new touch screen terminals, commenced at the end of 2004 and is due to be completed in 2007. From January 1, 2006, the new central lottery system is expected to become operational.

SAZKA's management believes that the new online management system is more flexible than its competitors' offline systems as it allows acceptance of a bet up to a few minutes before the relevant sporting event or drawing starts. It is also more secure for the operator than an offline system, as all bets are entered in a central database.

SAZKA keeps records in its central database of all betting and lotteries games, including odds betting schedules, records of lottery tickets released for sale, all bets accepted, all lottery tickets sold, lottery winnings and prize pay-outs and similar information regarding non-gaming activities. This data are stored in a secure computer centre in the SAZKA building, and double-data backup is ensured. The STARPORT central lottery system back-up data are stored at another secure location.

Terminals are connected to SAZKA's central processing system by a communications network, which is a centrally controlled non-public radio network operated by GTECH. Data from sales points within each catchment area are transferred by radio transmission through radio-modems to a local control station which transmits the data to a central station where all data from terminals in the Czech Republic are accumulated. Data transfers between a regional concentrator and the central station, as well as between the central station and the processing centre, are effected through the VSAT satellite network. Standard response time for this communications network does not exceed four seconds and the data are secured by an encryption algorithm.

SAZKA is developing a new independent radio and wire-line communications system for its STARPORT terminals. This parallel network is expected to connect up to 10,000 video-lottery terminals with the STARPORT central lottery system within the next four to five years.

Cooperation with GTECH Corporation

Transactions are processed for SAZKA by GTECH Corporation, which owns the sales terminals and the central computer system. The communication system is owned by GTECH Czech Republic LLC, a Delaware company ("GTECH CR"), except for GTECH's central station which is located in Poland and

is owned by an affiliate of GTECH Corporation. SAZKA acquired a 75 per cent. interest in GTECH CR in 2001. GTECH is a US group with a worldwide focus on the development and supply of lottery systems and the provision of services for the gaming industry.

GTECH Corporation owns the central computer system and the software for games, bets and other non-gaming activities which it leases to SAZKA. It is also responsible for the operation of the terminals, the central computer system and communication between the terminals and the computer system. SAZKA pays fees to GTECH Corporation for the system and software leasing and for technological support, on a basis determined as a proportion of the terminals' revenues. GTECH CR is the owner of the communications network enabling connection between the terminals and the central computer system, except for GTECH's central control station in Poland. GTECH Corporation does not provide services to SAZKA directly, but through GTECH CR, a 75 per cent. owned direct subsidiary of SAZKA. GTECH CR is the holder of a licence for the provision of non-public telecommunications services. SAZKA entered into a financial lease agreement and a technical services agreement with GTECH Corporation in 1992. Under these agreements, SAZKA determines its terminal requirements and GTECH Corporation installs the terminals at its own cost, subject to a limit of 8,250 terminals, which should be sufficient to meet SAZKA's needs. GTECH Corporation is obliged to indemnify SAZKA for any outage of the terminals network. SAZKA is not obliged to pay GTECH Corporation any additional fees for new terminals or for contemplated innovations.

SAZKA has exercised the right to purchase all currently used equipment leased to it under the financial lease agreement referred to above, including up to 8,250 Spectra online terminals and a central computer system, on 31 December 2005 for a nominal price. SAZKA intends to purchase all such equipment in order to benefit from tax advantages and to become the owner of the entire terminals network and the central computer system. At the same time, SAZKA has agreed to purchase the remainder of the interest in GTECH CR for a fixed sum of US\$3 million and is currently negotiating with GTECH as to the date of such purchase. Progressive increases of the registered capital of GTECH CR are also being paid by SAZKA to reflect the cost of upgrading the communications network until 2005. Fees for leasing and technical services are paid to GTECH on a percentage of revenue basis according to pre-set rates.

On 2 December 2003, SAZKA and GTECH signed a contract extension that continues until 2017, pursuant to which GTECH replaced SAZKA's current online and instant ticket system with GTECH Enterprise Series architecture, which it believes will give SAZKA the ability to capture emerging growth and management opportunities such as e-commerce applications, new game delivery, access through browser-based devices, sharing of networks and communications, and compatibility with other open third-party business management solutions. The Spectra terminals currently used in SAZKA's distribution network are being replaced by Altura terminals. The new business terms and conditions are economically more favourable for SAZKA than those contained in the previous contract. This new agreement with GTECH also contemplates cooperation selected non-lottery markets. As part of the agreement with SAZKA, GTECH also provided a US\$20 million performance deposit that will be repaid upon achievement of certain milestones beginning in 2006. The schedule for the repayment of the performance deposit is \$8 million in 2006 and 2007, \$2 million in 2008 and \$1 million in 2009 and 2010, the first \$8 million instalment for which has already been paid. Prior to the expiration of the extended contract, SAZKA will have the right, under certain conditions, to purchase all terminals and the central computer system then in use as well as ancillary rights and software rights needed for the operation of the system.

In the event that the agreements SAZKA currently has with GTECH are terminated as a result of a default by GTECH, SAZKA has the right to obtain operational control over the terminals and the central operating system for SAZKA's electronically managed business activities. Management believe that it would be capable of managing a change in operational control of the terminals, the central operating system and the telecommunications platform for its electronically managed business activities relating to its current service offerings.

SAZKA regards its relationship with GTECH as an important business strength. SAZKA had agreed to acquire the remaining ownership interests in its currently 75 per cent. owned telecommunications subsidiary, GTECH CR, at the beginning of 2006 in order to increase its share in the company which is the owner of the telecommunications platform that provides the backbone for the majority of its business activities. SAZKA is currently engaged in negotiations with GTECH with a view to postpone the acquisition of the remaining interest in GTECH CR to a later date and regarding the nature of the management relationship between GTECH CR and GTECH Corporation and the payments to be made to and received from GTECH Corporation by GTECH CR.

Under SAZKA's agreements with GTECH, should the communications system fail, GTECH is obliged to pay SAZKA amounts based on the number of terminals which were affected by the failure and the length of interruption. SAZKA is also insured for this risk to an amount that management consider prudent based on historic levels of loss. SAZKA also secures its network by means of back-up hardware and other measures which also allow it to be able to effectively operate without its online operations in an event of systems failure.

Cooperation with Cyberview

In September 2004, SAZKA entered into an Operating Services Agreement (last amended and restated on 22 February 2005) with Cyberview International, Inc. and CYBERVIEW TECHNOLOGY CZ s.r.o. (together, "**Cyberview**") (the "**Operating Services Agreement**") pursuant to which Cyberview provides to SAZKA services designed to aid SAZKA in implementing its project of a central lottery system with interactive videolottery terminals (IVTs) for games (those described in licence No. 601/56 as well as other games, see page 18 for a description of licence No. 601/56) and other functions marketed under the commercial name STARPORT.

Under the Operating Services Agreement, entered into for a ten-year term extendable twice for five-year terms, Cyberview agreed to provide to SAZKA services including, *inter alia*, the delivery, installation and operation of the central lottery system which includes a central server system, IVTs, PVUs and other equipment. IVTs, PVUs and other equipment up to 10,000 units. The IVTs and PVUs are leased from a leasing company selected by SAZKA or leased from Cyberview.

SAZKA has an option to purchase the rented equipment after the end of each five-year rental term and an option to purchase the central server system hardware and application software and ancillary rights upon the termination (or under certain conditions upon early termination) of the Operating Services Agreement.

The compensation by SAZKA for Cyberview's services is a monthly payment that is calculated on the basis of gross profits relating to the IVTs. Payments for games other than those set out in the Operating Services Agreement and for other functions (such as recharging pre-paid phones and sale of tickets) are to be agreed on a case-by-case basis. The Operating Services Agreement also provides for the possibility of co-operation in additional fields and countries. Both parties can terminate the Operating Services Agreement in the event of a material breach of the Operating Service Agreement by the other party. Material breach by SAZKA includes, *inter alia*, payment default, bankruptcy, revocation of licence No. 601/56 other than as a result of Cyberview's breach, attempted decompilation or reverse engineering of the central lottery system, intentional infringement of Cyberview or third party intellectual property rights, change of control of SAZKA and seizure of at least 10 per cent. of installed terminals.

SAZKA also entered into other agreements in connection with the Operating Services Agreement, including a sublease agreement for the placement of the central server system and a software escrow agreement. In the event that Cyberview fails to perform its contractual obligations, SAZKA is able to run its software itself.

Promotions and Public Relations

SAZKA's relationship with its customers and agents is central to its advertising strategy. SAZKA conducts detailed in-house marketing analysis and external quantitative and qualitative surveys, product and service innovation, targeted publicity in the media, outdoor advertising and the distribution of promotional materials at points of sale. Depending on the nature of the product or service, SAZKA selects marketing tools including direct mail, flyers in magazines, specialised promotional items, aids for players, and three-dimensional and kinetic eye-catchers.

Because SAZKA operates fast-moving games, the internet is an important marketing tool to SAZKA, including special web pages which were opened for odds betting. Electronic information for players such as teletext, call centre and telemarketing is also a key area for SAZKA. SAZKA also focuses on product vendors, for whom it organises extensive training. SAZKA broadcasts draws on television and operates through its fully-owned subsidiary its own digital television studios to increase programme quality. SAZKA was also one of the first Czech gaming companies to update its advertising messages at high speed, especially for information subject to frequent change, such as the current *Sportka Jackpot* numbers or bets made on sporting events.

All new product development projects and major advertising campaigns are subject to qualitative and quantitative research. Media purchasing is planned in cooperation with external media market consultants

from several media agencies. In 2006, a significant part of SAZKA's marketing activities will be in connection with the 50th anniversary of its foundation.

Competition in the Gaming Business

From 1948, when all private betting agencies were dissolved in the former Czechoslovakia, until 1989, SAZKA was the Czech Republic's chief betting and lottery operator. Liberalisation of the market after 1990 resulted in the emergence of new competitors. SAZKA remains the leading Czech number lottery operator in terms of market share, with a 99 per cent. share of the number lottery market as at 31 December 2005 based on information provided to SAZKA by the Ministry of Finance. SAZKA also has a leading position in the instant lottery segment.

SAZKA had a 3.1 per cent. share of the odds betting market as at 31 December 2005 based on information provided to SAZKA by the Ministry of Finance. SAZKA's main competitors in the odds betting market are Tipsport, Fortuna and Chance. The lottery and gaming industry in the Czech Republic is regulated by the Czech Ministry of Finance (see "*Relevant Czech Legal Matters*"). SAZKA also faces competition from internet based odds betting service providers, who are not licensed to offer betting services in the Czech Republic.

SAZKA has recently launched its STARPORT video lottery terminals' project and plans, within the next five years, to operate up to 10,000 terminals in order to try to gain a strong competitive edge over other companies operating in the Czech machine gaming segment.

Brand Name Protection

SAZKA has over 150 registered or pending trademarks in the Czech Republic which protect its corporate logo, the SAZKA brand name and the names and logos of its various games. SAZKA has more than 15 registered or pending trademarks in the European Union regarding its corporate name and logo. SAZKA was granted a patent, and registered a utility design for its method of recharging of mobile telephone credits in the Czech Republic. SAZKA also fitted a patent and utility design application in the European Union and several other countries for the method of recharging of mobile telephone credits and registered a utility design in the Czech Republic for its method of ticket sales and STARPORT.

SAZKA's Non-Gaming Businesses

SAZKA undertakes certain non-gaming business and intends to use its extensive terminal network to introduce new non-gaming products and services. Profits from these activities are not tax-exempt as in the case of its gaming business. SAZKA currently provides a mobile telephone pre-paid charge card service. Mobile telephone cards can be recharged for all three mobile telephone operators in the Czech Republic. SAZKA also provides advance sales of tickets for sports and cultural events throughout its sales network. As part of this service, customers are able to buy tickets for sports and cultural events in SAZKA Arena and other locations and venues around the Czech Republic. SAZKA is also considering becoming involved in lottery-business consulting services and the business of recharging mobile phone credits in Russia.

A change in the ticketing system is currently being implemented which will improve services for customers and VIP clients and terminal services. This should permit, among others, payment by debit/credit cards, improvements in the system for returning tickets when an event is cancelled, granting of discounts when reserving by the internet and email notifications to be generated for customers. In 2004, the non-gaming business generated revenue of CZK 504,233,000 (€17,384,348) and pre-tax profit of CZK 50,901,000 (€1,754,904) for SAZKA.

In January 2006, as a part of SAZKA's plan to use its dealer network to operate non-lottery activities, SAZKA began to sell its weekly odds-betting magazine "SAZKA TIP" through its terminal network. SAZKA plans to configure its terminals for the sale of other newspapers and magazines during 2006. SAZKA is also in negotiations with distributors of magazines for other titles to distribute, such as TV NOVA's "ANO" magazine. The magazines are currently distributed to the terminals by the supplier, but SAZKA is considering becoming a direct supplier of certain goods to its terminals. In addition, SAZKA is considering expanding sales of magazines and other goods by the way of collecting orders and payments for the goods offered in catalogues of third parties and, in the future, in SAZKA's own catalogues.

Additional non-gaming services that SAZKA intends to implement in 2006 include:

Payment of utility bills through SAZKA's sales network. SAZKA will facilitate payments of utility bills (including electricity, telephone and insurance bills) through SAZKA's sales network whereby customers will be able to make payments using a bar code printed on the invoice received from the utility provider. This will provide increased efficiency and an on-line payment system as opposed to the cash payment facilities currently available through the Czech Post Office network.

Opening insurance policies. In 2006, SAZKA will prepare the launch of web-based insurance services through the GTECH terminal in cooperation with an insurance company. Customers may prepare draft insurance policies and make payments on the policy using the online terminal network.

SAZKA Club loyalty programme. SAZKA is currently testing a loyalty club pilot project at its own sales points and, in the future on the terminals developed with GTECH. The loyalty programme is likely to provide regular customers/players with preferential services when placing bets and collecting winnings. By using this loyalty programme, SAZKA will monitor the consumer habits and behaviour of its registered clients and obtain valuable marketing information for further development of the company's activities.

For the year ended 31 December 2005, non-gaming business activities generated revenues of CZK 555,143,000 (€19,139,562) and pre-tax profit of CZK 63,276,000 (€2,181,555), or 6.35 per cent. of SAZKA's total revenue and 3.92 per cent. of SAZKA's pre-tax profit, respectively. SAZKA's management believes that implementation of additional non-gaming services, especially utility bill payments through SAZKA's terminals, will increase the positive effect of SAZKA's non-gaming business activities on its cashflow in the coming years.

SAZKA's licences for the operation of games and lotteries

At present, SAZKA operates its lotteries and odds betting games under the following licences issued by the Ministry of Finance of the Czech Republic:

- Licence to operate number lotteries and betting games, Ref. No. 601/79 755/1998, of 24 November 1998, as amended by further decisions. This licence stipulates the terms and conditions for the operation of the number lotteries *Sportka*, *Šťastných 10*, *SAZKA*, *Šance*, *Šance Milion* and *Keno*. This licence has been issued for an indefinite period of time.
- Licence for odds betting, Ref. No. 601/81 261/1998, of 25 November 1998, as amended. Organising odds betting is permitted at selected sales points until 31 December 2008. At present, SAZKA has 1,321 sales points authorised to accept odds betting.
- Licence for the instant lottery *Horoskopy III*, Ref. No. 601/74 434/2004, of 30 July 2004. This licence is valid until 31 December 2007.
- The number lottery *Euromilióny* was launched in October 2003. SAZKA obtained the licence to operate this lottery from the Ministry of Finance on 15 July 2003 under Ref. No. 601/45 894/1/2003. This licence is valid until 31 December 2012.
- The instant lottery *T-Mobile RENTA* was launched on 15 September 2003. The licence was issued under Ref. No. 601/46 668/2003 on 8 July 2003. This licence is valid until 15 October 2006.
- IVT + LCU (interactive video-lottery terminals connected to a central lottery system) were launched in 2004 following a successful pilot project undertaken in 2003. The licence was issued under Ref. No. 601/56 677/2003 on 1 August 2003 for an indefinite period of time and, based on subsequent extensions, applies to a number of gaming points throughout the Czech Republic for gambling games including “Šťastná Linie”, “Golden Scratch”, “HI-LO”, “Golden Track”, “Penalta”, “Golden Saddle”, “Viva Keno”, “American Roulette”, “Diamond Dice”, “Diamond Poker”, “Maxi”, “on the House”, “Infinity”, “Ruleta” and “King's Crown Poker”, “Pentagraph”, “Passion Fruit” and “Wild Fire”, “Jackpot Party” and “Ye Ha Hai” all operated under the trade name Starport.
- The *Kámen-Nôžky-Papír* instant lottery was launched on 1 July 2004. The relevant licence was issued under Ref. No. 601/74 443/2004 on 30 June 2004. This licence is valid until 30 April 2007.
- The *Pokušení* instant lottery was launched on 15 May 2005. The relevant licence was issued under Ref. No. 601/43 532/2005 on 11 May 2005. This licence is valid until 1 March 2008.
- Licence for the instant lottery *Šťastná čísla*, Ref. No. 601/28 498/2003, of 23 April 2003. This licence is valid until 31 January 2007.
- Licence for the instant lottery *Vegas*, Ref. No. 901/52 946/2006. The relevant licence was issued on 29 May 2006 and is valid until 31 December 2008.

Number lotteries licences are granted by the Ministry of Finance for an indefinite period of time (with the exception of the number lottery *Euromilióny*). Licences for instant lotteries are granted on a case by case basis for a period requested by SAZKA, according to SAZKA's marketing plans. Licences for odds betting have been granted for 10 years expiring in 2008 and are renewable if the relevant licence conditions are met. SAZKA's gaming businesses are dependent upon these licences listed above which are granted by the Ministry of Finance, and SAZKA could not operate its gaming activities without these or similar other licences issued by the Ministry of Finance. The Ministry of Finance can only revoke SAZKA's gaming licences if new facts become apparent due to which it would not have been possible to grant the licence, if the licence was granted on the basis of deceitful information, for non-compliance with the conditions set forth in the licence or for non-compliance with gaming laws or regulations. The Ministry of Finance can also modify an existing licence if required for the due operation of the game or in the public interest. SAZKA has never had a licence revoked or experienced difficulty with the Ministry of Finance in extending or renewing its licences to date, and there is no reason to believe that the Ministry of Finance has any grounds to or intends to revoke any of SAZKA's licences.

SAZKA is obliged by law to place a security deposit with a bank in respect of its gaming licences and confirm such security deposit to the Ministry of Finance. As of 31 December 2005 the security deposit made by SAZKA for all of its gaming licences amounts to CZK 115 million (€3,964,834), which is in accordance with the current amount required by the Lotteries Act. The compliance of SAZKA as a gaming operator with the terms of its respective licences and the Lotteries Act is subject to the continued supervision of the Ministry of Finance and the relevant tax authority. Ministry of Finance inspections concerning the settlement of proceeds take place at SAZKA every year. Between April and June of 1999 a special on-site inspection by the Ministry of Finance took place on the premises of SAZKA as well as at some of its points of sale. The inspection was aimed at verifying SAZKA's compliance with the Lotteries Act and the proper distribution of "good cause payments". To date, no lottery inspection has found any violations of lottery licences or the Lotteries Act by SAZKA.

Good cause payments

Pursuant to the requirements of the Lotteries Act, SAZKA must distribute to "good causes" each year at least 20 per cent. of the amount by which its revenues from gaming activities exceed the amount of prizes paid by it, administrative fees, local charges and the cost of state supervision. The amount of "good cause payments" does not depend on other operating costs incurred by SAZKA in connection with the lotteries. As a result, the amount of "good cause payments" is, to a certain extent, independent of the amount of SAZKA's actual profit or loss for each given fiscal period.

The licence for each game stipulates the "good cause" for which the "good cause payments" under the relevant licence shall be distributed. In the case of number lotteries, odds betting and most of SAZKA's lotteries, the monies must be applied for sporting or other charitable purposes. SAZKA has also organised several instant lotteries for healthcare and social purposes: *Setřená slza (Wiped Tear)* in 2000 for the Tereza Maxová Foundation, for the Good Will Committee – Olga Havlová Foundation, and the *Vánoční kometa se vrací (Christmas Comet Returns)* lottery in 2001 for the Nation to Children Foundation, a children's cancer charity. SAZKA has also created the SAZKA awards, by means of which it has been providing support to Czech culture every year since 2001. The awards are granted each year in the areas of theatre, film and dance. In 2005, a committee consisting of representatives of the Czech Ministry of Finance, Czech Ministry of Culture and SAZKA decided that a part of the proceeds generated by the T-Mobile RENTA instant lottery should be distributed for the reconstruction of several churches. By means of a regular financial contribution equal to CZK 500,000 each year, SAZKA also supports the activities of Naše dítě (our children) foundation related to its safety hotline.

SAZKA distributes considerably larger amounts for these "good causes" than is required by the Lotteries Act. The distribution of "good cause payments" both in amount and to recipients is subject to the consent of SAZKA's shareholders, who are civic associations active in sports and who receive a substantial portion of the "good cause payments". SAZKA's Articles of Association expressly prohibit any increase in the distribution of "good cause payments" above those profits generated from gaming operations. Under the Articles of Association of SAZKA, distribution of "good cause payments" to SAZKA shareholders is made proportionately to their respective interests in SAZKA. The following table sets forth the amount of "good cause payments" made in the years 2003, 2004 and 2005.

Distributions for publicly beneficial purposes:

| | <u>2003</u> | <u>2003</u> | <u>2004</u> | <u>2004</u> | <u>2005</u> | <u>2005</u> |
|--|---------------------------|----------------------------|---------------------------|----------------------------|---------------------------|----------------------------|
| | CZK (in thousands) | euro (in thousands) | CZK (in thousands) | euro (in thousands) | CZK (in thousands) | euro (in thousands) |
| Gross profit from gaming activities | 1,355,555 | 46,735 | 1,194,772 | 41,191 | 1,405,658 | 48,463 |
| Mandatory distribution of Part of Proceeds | 701,101 | 24,172 | 606,524 | 20,911 | 706,324 | 24,352 |
| Distribution of proceeds for bond service | 0 | 0 | 490,894 | 16,924 | 620,715 | 21,400 |
| Actual distribution of proceeds paid to shareholders | 1,051,927 | 36,267 | 995,508 | 34,322 | 703,910 | 24,269 |

(1) In 2004, the use of proceeds to support “good causes” totalled a record CZK 1,486,402,000 (€51,246,405), including distribution of unpaid proceeds for “good causes” for the years 1999 — 2003. The above sum also includes CZK 490,894,000 (€16,924,461) covering the first instalment on the Original Bonds.

Use of proceeds to support “good causes” in 2005 were approximately CZK 1,324,625,000 (€45,668,850.79), including CZK 821 million (€28,305,465) relating to payments under the Original Bonds.

The recipients of “good cause payments” are obliged to evidence to SAZKA the use of the monies received for a purpose that is consistent with the relevant game licence, and must return any monies they are unable to properly evidence. SAZKA is responsible to the Ministry of Finance for the proper distribution of “good cause payments”. As a result, SAZKA’s recipient shareholders submit a report to SAZKA on the use of proceeds on an annual basis. As SAZKA’s shareholders’ respective financial needs are budgeted, SAZKA makes regular monthly advance payments to them in the total amount of at least 40 per cent. of the “good cause payments” paid in the preceding year.

SAZKA’s current principal project in the support of “good causes” has been the financing of the acquisition of SAZKA Arena by OSZO by means of the Mandatory Contribution Agreement and the Amended Finance Lease Agreement.

Other good cause contributions

In addition to sports and physical education projects, SAZKA is also involved in making “good cause contributions” to healthcare projects such as the Bone Marrow Transplant Foundation and the Nation to the Children Foundation. Contributions to social projects by SAZKA include the Child Foundation Safety Line and the SAZKA Foundation which awards scholarships and grants to projects focused on children and young people, especially in the fields of science, technology, art and culture. Contributions to cultural projects by SAZKA include the SAZKA Awards, awarded annually for the best performances and events in Czech drama, film and dance.

SAZKA Arena

The construction of SAZKA Arena was completed in March 2004. SAZKA Arena is part of a brownfield development in the suburbs of Prague called Zelený Ostrov (Green Island), and serves the sports, cultural and social requirements of the general public. Besides SAZKA Arena, the Zelený Ostrov complex will, in the future, also provide a training centre, a hotel, an administrative centre and a shopping and entertainment centre. SAZKA Arena offers 26 alternative spatial, operating and technical solutions for the auditorium and stage areas to provide for different kinds of events. SAZKA Arena’s capacity varies, depending on the occasion: SAZKA Arena seats 17,000 spectators for ice hockey matches; 11,000 for athletics meets; and up to 18,000 for concerts. SAZKA Arena also incorporates 66 executive boxes, four party boxes and eight club boxes. SAZKA Arena also has eight changing rooms for ice hockey teams, four smaller locker rooms, a treatment centre, and two levels of club seats and boxes. In addition, SAZKA Arena has its own closed circuit television and studio, and a Hall of Fame for Czech sports celebrities. Bestsport, which is the current owner and operator of SAZKA Arena, holds an insurance policy against operational risks associated with the SAZKA Arena (including risks associated with terrorism) with a syndicate of insurance companies (AIG CZECH REPUBLIC, Allianz, Česká pojišť’ovna, Kooperativa and Česká podnikatelská pojišť’ovna). Bestsport also holds an insurance policy with XL Insurance Company Limited against liability risks of management and statutory representatives and certain other insurance policies relating to SAZKA Arena, such as insurance policies against operational, act-of-god risks with a syndicate of insurance companies. Management believes these arrangements provide

sufficient cover in accordance with good industry practice and are sufficient to protect SAZKA Arena from all expected risks on a reasonable and prudent basis. For a description of the inability of the Security Agent to attach or direct the proceeds from such policies, see “*Risk Factors — Risks Relating to the Bonds — Insufficient of the Charged Property to satisfy outstanding payment obligations under the Bonds*”.

SAZKA Arena is constructed on the Arena Land which SAZKA has recently acquired from Quonex. The Bonds are issued with the benefit of a first ranking mortgage over SAZKA Arena from Bestsport and a mortgage, subordinated to the Senior Liens, over the Arena Land from SAZKA respectively to the Security Agent on behalf of the Bondholders as security for the payment obligations of SAZKA under the Conditions. See “*Description of Certain Underlying Transactions — The Bond Security*” for more information on these Mortgages.

Liquidity

SAZKA is currently party to loan agreements (including framework loan agreements) with five Czech banks (Komerční banka, Česká spořitelna, BAWAG Bank CZ, Raiffeisenbank, ČSOB) for a maximum aggregate amount of CZK 1.845 billion (€63,609,722), with CZK 1.348 billion (€46,474,746) drawn-down as at 31 May 2006. All of these loan agreements are short-term facilities with repayment due no later than the end of 2006. SAZKA has used the proceeds of these loans on financing its day-to-day operations and will need to refinance these facilities during the remainder of 2006. These short-term facilities provide for the right of these lenders to accelerate their loans should SAZKA fail to comply with certain financial ratios or other financial criteria.

SAZKA's Shareholders

SAZKA is wholly owned by nine civic associations, to which SAZKA pays a mandatory distribution from its lottery revenues. The following table sets forth SAZKA's shareholder structure at 31 December 2005:

| <u>Shareholder</u> | <u>Share in registered capital</u> |
|---|------------------------------------|
| Český svaz tělesné výchovy (Czech Physical Education Union (ČSTV)) | 67.983% |
| Česká obec sokolská (Czech Sokol Community) | 13.542% |
| Česká asociace Sport pro všechny (Czech “Sports for All” Association) | 5.563% |
| Autoklub České republiky (Automotive Club of the Czech Republic) | 4.000% |
| Sdružení sportovních svazů České republiky (Association of Sports Unions of the Czech Republic) | 3.563% |
| Český olympijský výbor (Czech Olympic Committee) | 2.000% |
| Český střelecký svaz (Czech Shooting Union) | 1.445% |
| Asociace tělovýchovných jednot a sportovních klubů České republiky (Association of Physical Education Organisations and Sports Clubs of the Czech Republic) | 1.022% |
| Orel | 0.882% |
| Total | 100.000% |

SAZKA's shareholders each have the legal status of civic associations and operate primarily in the field of sports and physical education. All shareholders exercise their ownership rights through their representatives at sessions of SAZKA's general meetings of shareholders and meetings of the Board of Directors and the Supervisory Board.

SAZKA's Ownership Interests and Subsidiaries

The following table sets forth SAZKA's consolidated ownership interests in other entities and Bestsport, which is not consolidated within SAZKA's financial statements as of 31 December 2005:

| <i>Ownership Interest</i> | <i>Registered Capital</i> | | <i>Ownership Interest (includes ownership interests of SAZKA or its subsidiaries)</i> |
|--|---------------------------|-------------|---|
| | <i>CZK</i> | <i>euro</i> | |
| BESTSPORT, akciová společnost | 11,500,000 | 396,483 | 10.00% |
| Agro Tera, a.s. | 386,000,000 | 13,308,050 | 100.00% |
| BUSINESS CENTRE SERVICE a.s. | 51,580,000 | 1,778,314 | 100.00% |
| KOLBY, a.s. | 32,950,000 | 1,687,640 | 99.90% |
| ARKADIA, a.s. | 409,500,000 | 14,118,255 | 99.75% |
| KPS MEDIA a.s., (formerly KABEL PLUS SPORT a.s.) | 110,000,000 | 3,792,450 | 100.00% |
| SPORTLEASE, a.s. | 40,100,000 | 1,382,520 | 100.00% |
| GTECH Czech Republic LLC | N/A | — | 75.00% |
| CJSC SAZKA International | RUB 10,000 | — | 99.99% |

Agro Tera, a.s.

Agro Tera, a.s. operates VIRTUAL GAME HALL (a game arcade with no gambling or winnings) in the Nový Smichov Shopping Centre. Agro Tera, a.s. also intends to purchase plots of land in its service areas of Rudná, Drahelčice, and Hořelice for the purpose of consolidating existing land plots owned by it.

BUSINESS CENTRE SERVICE a.s. ("BCS")

BCS provides standard services, especially in the area of management facilities (the administration and technology maintenance owned and operated by SAZKA). It also offers a wide range of commercial services for the needs of SAZKA and its consolidated subsidiaries such as conference services, business services, food and beverage services, copying services, transport services and additional technical or operational activities for SAZKA Arena. BCS leases office space from SAZKA in the Head Office.

KOLBY a.s.

KOLBY is engaged primarily in wine growing, processing and distribution. KOLBY may expand its vineyards in the near future, which are located in the area of Pouzdřany.

ARKADIA, a.s.

ARKADIA currently operates the SPORT&FUN CITY game arcade in the Nový Smichov Shopping Centre. ARKADIA intends to cooperate on the industrial zone project in Dolné Staré Město with the Municipality of Trutnov as well as on the STARPORT project. ARKADIA also intends to purchase plots of land in its service area for the purpose of consolidating existing land plots owned by it.

KPS MEDIA a.s. (formerly KABEL PLUS SPORT a.s.)

KPS MEDIA a.s. (formerly KABEL PLUS SPORT a.s.) specialises in television production and post-production. It arranges programmes for SAZKA and programme production for TV Galaxie Sport and the Czech version of Eurosport. KPS MEDIA a.s. (formerly KABEL PLUS SPORT a.s.) operates all television equipment in SAZKA Arena and also creates the programming on the videobox and display systems.

SPORTLEASE a.s.

The main activity of SPORTLEASE is leasing. Currently, financial leasing is provided to some subsidiaries of SAZKA and other companies outside the SAZKA group in which the shareholders of SAZKA have a shareholding. Financial leasing is used, in particular, when it is possible to improve the cash flow of these companies through the purchase of tangible assets and then to lease these assets in the form of financial leasing.

BESTSPORT akciová společnost

Bestsport is the owner and operator of SAZKA Arena and will transfer SAZKA Arena under the terms of the Amended Finance Lease Agreement to OSZO. Bestsport organises sporting events (hockey extra-league), cultural events such as concerts and other events (such as professional conferences, workshops, corporate presentations and ceremonies). Bestsport will, on the Issue Date, be party to the Trust Deed constituting the Bonds as well as the Arena Mortgage Agreement. Bestsport is owned and controlled by the Co-obligor, which holds a 90 per cent. interest in its capital. For more information on the SAZKA Arena, see “*Description of Certain Underlying Transactions — The Bond Security — Description of the Charged Property — SAZKA Arena*”.

GTECH Czech Republic LLC

GTECH Czech Republic’s main activity is the operation of the central lottery system of GTECH Corp., which processes SAZKA’s lottery and non-lottery products of SAZKA (with the exception of the game system STARPORT). GTECH Czech Republic LLC also provides SAZKA with private telecommunications services for the on-line transfer of data between the terminals and the central lottery system and other software-related services. GTECH Czech Republic LLC installs and repairs the lottery terminals and secures their telecommunications connection to the system. GTECH Czech Republic LLC also supplies SAZKA with materials needed to operate the terminals.

Except for GTECH Czech Republic LLC, which is incorporated in Delaware, USA, all other subsidiaries of SAZKA are organised in the Czech Republic.

CJSC SAZKA International

SAZKA has recently established a subsidiary in Russia to undertake mobile phone pre-paid card recharging in that market. This subsidiary is a Russian closed joint stock company named CJSC SAZKA International.

Real Property of SAZKA

SAZKA currently owns several real estate properties located in Prague and other areas of the Czech Republic.

The Head Office

The Head Office at K Žižkovu 851, Prague 9 is owned by SAZKA.

The building, along with one of the plots on which it is located and certain adjacent plots, will be encumbered by a first ranking mortgage in favour of the Security Agent to secure SAZKA’s obligations under the Bonds. For more information on the Head Office, see “*Description of Certain Underlying Transactions — The Bond Security*” and “*— Description of the Charged Property*”.

The Arena Land

The Arena Land supports SAZKA Arena and together with the Operational Easement provides access to SAZKA Arena. The Arena Land is located on land plots No. 3343/9, with the area of 3,688 sq. metres, No. 3343/29, with the area of 4,357 sq. metres, No. 3343/35, with the area of 22,370 sq. metres, built up area and courtyard and also includes the land beneath and adjacent to SAZKA Arena: plots of land No. 3343/32 with an area of 12,543 sq. metres, No. 3343/30 with an area of 796 sq. metres, No. 3343/41 with an area of 3,781 sq. metres, No. 3343/60 with an area of 315 sq. metres, No. 3343/79 with an area of 582 sq. metres, all in the cadastral territory of Liben, municipality of Prague, district of Prague Capital. The Arena Land is currently encumbered with the Senior Liens. The Arena Land is not insured. For more information on the Arena Land, see “*Description of Certain Underlying Transactions — The Bond Security — Description of the Charged Property — Arena Land*”.

Based on the excerpts from the Czech Cadastral Registry, SAZKA is also registered as an owner of 17 other buildings and plots of land in the Czech Republic with a total area of 1,399,427 sq. metres.

Legal Proceedings

QUONEX REAL, a.s.

SAZKA has recently settled a dispute with QUONEX REAL, a.s. (“**Quonex**”), the company from which it purchased the Arena Land. The dispute was resolved out of court. On 17 October 2005, SAZKA was entered in the Real Estate Register as the owner of the Arena Land, effective 16 June 2005. The land continues to be encumbered by the Senior Liens. In the event that the Senior Liens are not terminated, SAZKA may pay these liabilities in order to prevent a sale of the Arena Land, at a reduced valuation or otherwise. See “*Risk Factors — Risks Relating to the Bonds — Existence of other liens and notices relating to the Arena Land*”.

Proceedings before the Czech Office for the Protection of Economic Competition

The Czech Office for the Protection of Economic Competition (the “**Competition Office**”) commenced administrative proceedings against SAZKA on October 2003 based upon a complaint by four of SAZKA’s current distributors (out of more than 4,000 current independent distributors). These administrative proceedings are based on the suspicion of abuse by SAZKA of its alleged dominant position in the lotteries games and instant lotteries market segments. This alleged abuse of dominant position consists of the alleged exploitation by SAZKA of its market power to impose unfair contract terms upon its distributors in the instant lotteries market segment. On 23 January 2004, the Competition Office has issued its first decision stating that SAZKA had breached Czech competition law by abusing its market power to impose unfair contract terms upon its distributors in the instant lotteries market segment. SAZKA has been ordered to change the relevant clauses of the agreements with its distributors and to pay a fine of CZK 12 million (€413,722). On appeal by SAZKA, the Chairman of the Competition Office issued a decision dated 8 July 2005, reducing the fine to CZK 1.2 million (€41,372) and affirming the order to change the relevant clauses of the distributor agreements. The reduced fine was paid by SAZKA on 2 August 2005. On 26 August 2005, SAZKA filed a petition for judicial review in the Regional Court in Brno, seeking an annulment of both the decision dated 23 January 2004 and the decision dated 8 July 2005. The grant of a suspensive effect of SAZKA’s petition was denied on 3 October 2005. SAZKA is currently seeking to have the decision of the Czech Office for the Protection of Economic Competition set aside. SAZKA’s failure to change the relevant clauses of the agreement with its distributors may result in an additional fine of up to CZK 1 million (€34,477). For a description of the risks relating to these proceedings, see the section entitled “*Investment Considerations — Risks Relating to SAZKA’s Business — Proceedings Before the Czech Office for the Protection of Economic Competition*”.

OSZO has not been involved in any governmental, legal or arbitration proceedings during the last 12 months.

CAPITALISATION OF SAZKA

The following table sets forth, as at 31 December 2005, SAZKA's audited consolidated capitalisation on an actual basis and on an as adjusted basis to give effect to the issue of the Bonds.

This table should be read together with SAZKA's consolidated and unconsolidated financial statements and related notes included elsewhere in this Prospectus.

| | <i>As at 31 December 2005</i> <i>(Actual)</i> | | <i>As at 31 December 2005</i> <i>(As adjusted)</i> | |
|--|--|-------------------------------------|---|-------------------------------------|
| | <u>CZK</u> <u>(in thousands)</u> | <u>EUR</u> <u>(in thousands)</u> | <u>CZK</u> <u>(in thousands)</u> | <u>EUR</u> <u>(in thousands)</u> |
| Short-Term Liabilities | | | | |
| Trade and other payables | 1,971,046 | 67,955 | 1,971,046 | 67,955 |
| Short-Term Borrowings | 1,205,000 | 41,545 | 1,205,000 | 41,545 |
| Current portion of bond issue | 320,478 | 11,049 | 0 | 1,500 |
| Short-Term Deferred Income — Lotteries | 502,508 | 17,325 | 502,508 | 17,325 |
| Short-Term Deferred Income — Other | 40,491 | 1,396 | 40,491 | 1,396 |
| Short Short-Term Liabilities | <u>4,039,523</u> | <u>139,270</u> | <u>3,719,045</u> | <u>129,721</u> |
| Long-Term Liabilities | | | | |
| Trade and other payables | 1,128,987 | 38,924 | 1,128,987 | 38,924 |
| Long-Term Borrowings | 55,000 | 1,896 | 55,000 | 1,896 |
| Long-Term Deferred Income — Lotteries | 158,523 | 5,465 | 158,523 | 5,465 |
| Deferred Tax | 14,593 | 503 | 14,593 | 503 |
| Long-term debt — bond issue | 4,553,655 | 156,996 | 6,236,075 | 215,000 |
| Total Long-Term Liabilities | <u>5,910,758</u> | <u>203,784</u> | <u>7,593,178</u> | <u>261,789</u> |
| Shareholders' equity | | | | |
| Share Capital | 1,399,600 | 48,254 | 1,399,600 | 48,254 |
| Capital Reserves | (168,497) | (5,809) | (168,497) | (5,809) |
| Retained Earnings | 1,909,158 | 65,822 | 1,909,158 | 65,822 |
| Total shareholders' equity | <u>3,140,261</u> | <u>108,266</u> | <u>3,140,261</u> | <u>108,266</u> |
| Minority interest | 1,226 | 42 | 1,226 | 42 |
| Total capitalisation | <u>13,091,768</u> | <u>451,362</u> | <u>14,453,710</u> | <u>499,818</u> |

Notes:

1 Converted at the exchange rate of CZK 29,005 = €1 as at 31 December 2005 (exchange rate of the Czech National Bank)

MANAGEMENT AND EMPLOYEES

SAZKA is governed by a dual-tier board structure comprised of the Board of Directors and the Supervisory Board. SAZKA's principles and rules on corporate governance are laid down in its Articles of Association.

The Board of Directors

The Board of Directors is a statutory body, elected by SAZKA's shareholders, directing SAZKA's operations, acting on its behalf and binding SAZKA in the manner described in the Articles of Association. It decides all matters within the scope of its powers as defined by law and SAZKA's Articles of Association, whilst respecting the principles and instructions approved by the general meeting of shareholders. The primary functions of the Board are to:

- provide for the business management of SAZKA, including the proper keeping of SAZKA's books and accounts and management of SAZKA in accordance with the organisational rules and regulations it adopts;
- submit to the general meeting for approval of the regular, special and consolidated financial statements or, as the case may be, interim financial statements, proposed distribution of profits or coverage of losses and proposed distribution of proceeds;
- decide on the amounts and dates of advance payments toward the Part of Proceeds;
- submit to the general meeting a report on SAZKA's business activities and status of its property;
- appoint and recall SAZKA's General Manager; and
- decide other matters reserved by law or by SAZKA's Articles of Association for the Board of Directors.

Members of the Board of Directors

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|------------------|------------|-----------------|
| Aleš Hušák | 48 | Chairman |
| Roman Ječmínek | 66 | Vice-Chairman |
| Jiří Laurenc | 60 | Director |
| Karel Malý | 46 | Director |
| Milan Jirásek | 69 | Director |
| Jaroslav Bernard | 68 | Director |
| Vladimír Srb | 61 | Director |

The business address for each member of SAZKA's Board of Directors is SAZKA, K Žižkovu 851, 190 93, Prague 9, Czech Republic. In addition to their positions on SAZKA's Board of Directors, the following individuals also hold the following positions:

- Aleš Hušák — Member of the Board of Directors of SAZKA's subsidiary KOLBY, a.s. and member of the Board of Directors of GTECH Czech Republic LLC;
- Roman Ječmínek — Chairman of the Board of Directors of SAZKA's subsidiary Agro Tera, a.s.; chairman of the Supervisory Board of SAZKA's subsidiary KOLBY a.s., member of the Executive Board of the foundation DĚTSKÁ DOPRAVNÍ NADACE and member of the Board of Directors of Svět motorů a.s. — v likvidaci;
- Jiří Laurenc — Vice-Chairman of the Supervisory Board of SAZKA's subsidiary Agro Tera, a.s.;
- Karel Malý — Member of the Board of Directors of SAZKA's subsidiary KPS MEDIA a.s. (formerly KABEL PLUS SPORT a.s.);
- Milan Jirásek — Member of the Executive Council of OSZO; director of a related foundation (Nadace SAZKA); director of a foundation unrelated to SAZKA (Česká Nadace Sportovní Reprezentace) and Vice-Chairman of the Supervisory Board of SAZKA's subsidiary ARKADIA, a.s.;
- Jaroslav Bernard — Member of the Executive Council of OSZO and Chairman of the Supervisory Board of SAZKA's subsidiary SPORTLEASE a.s. and the president of Česká obec sokolská (Czech Sokol Community); and

- Vladimír Srb — Member of the Board of Directors of SAZKA's subsidiary, Agro Tera, a.s., and member of the Executive Council of OSZO.

To the best of the Issuer's knowledge, there are no potential conflicts of interest between any of the duties of the members of SAZKA's Board of Directors and their private duties or interests.

The Supervisory Board

The Supervisory Board is also elected by SAZKA's shareholders and supervises the performance by the Board of Directors of its scope of powers and the implementation of SAZKA's business activities. The Supervisory Board's primary functions are as follows:

- members of the Supervisory Board have the right to inspect any and all documents and records related to SAZKA's business for the purpose of verifying of the proper keeping of books and accounts in compliance with reality and the implementation of SAZKA's business in compliance with law, the Articles of Association and instructions of the general meeting (the exercise of these rights is provided for by the rules of procedure of the Supervisory Board);
- the Supervisory Board reviews the regular, special and consolidated financial statements or, as the case may be, interim financial statements and the proposal for the distribution of profits or coverage of any losses, and submits its report to the general meeting; and
- the Supervisory Board can call a general meeting if the best interests of SAZKA so require, and can suggest necessary measures for the general meeting.

Additional powers of the Supervisory Board are defined by law and by SAZKA's Articles of Association.

Members of the Supervisory Board

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|----------------|------------|---|
| Jaroslav Pekař | 61 | Chairman |
| Ladislav Šustr | 62 | Vice-Chairman |
| Jan Obst | 54 | Member of the Supervisory Board |
| Jiří Krátký | 48 | Member of the Supervisory Board |
| Jaroslav Němec | 55 | Member of the Supervisory Board |
| Jan Prádl | 47 | Member of the Supervisory Board; Employees' Representative |
| Karel Rozhoň | 60 | Member of the Supervisory Board; Employees' Representative |
| Jan Kašpárek | 52 | Member of the Supervisory Board; Employees' Representative |
| Václav Kobes | 58 | Member of the Supervisory Board |

The business address for each member of SAZKA's Supervisory Board is SAZKA, K Žižkovu 851, 190 93, Prague 9, Czech Republic. In addition to their position on SAZKA's Supervisory Board, the following individuals also hold the following positions:

- Jaroslav Pekař — Member of Supervisory Committee of OSZO; chairman of the Board of Directors of SAZKA's subsidiary, ARKADIA, a.s.; chairman of the Supervisory Board of the foundation NADACE SAZKA, and president of Český střelecký svaz (Czech Shooting Union);
- Jiří Krátký — Executive (*jednatel*) of MOFIS CZECH s.r.o.;
- Jan Prádl — Chairman of the Supervisory Boards of SAZKA's subsidiary KPS MEDIA a.s. (formerly KABEL PLUS SPORT a.s.) and Agro Tera, a.s.; chairman of the Supervisory Board of SAZKA's subsidiary ARKADIA, a.s.; chairman of the Board of Directors of SAZKA's subsidiary BUSINESS CENTRE SERVICE, a.s.; member of the Supervisory Board of the foundation of SAZKA's subsidiary NADACE SAZKA; member of the Supervisory Board of KOLBY, a.s.; member of the Board of Directors of SAZKA's subsidiary SPORTLEASE, a.s. and member of the Board of Directors of GTECH Czech Republic LLC; and
- Jaroslav Němec — Member of the Supervisory Committee of OSZO, president of Asociace tělovýchovných jednot a sportovních klubů České republiky (Association of Physical Education Organisations and Sports Clubs of the Czech Republic) and member of the Supervisory Board of SAZKA's subsidiary KPS MEDIA a.s. (formerly KABEL PLUS SPORT a.s.).

To the best of the Issuer's knowledge, there are no potential conflicts of interest between any of the duties of the members of SAZKA's, Supervisory Board and their private duties or interests.

Senior Management

The General Manager directs SAZKA through division directors, directors of independent departments, and the secretary. SAZKA has five divisions — Games and Betting Division, Finance Division, Distribution Network Division, Operating Technologies Division, Business Division and Administrative Division, and five independent departments — Project and Implementation Department, Promotion and Public Relations Department, Dispatching Department, Ownership Interests Department and Secretariat of the General Manager. Division directors manage the divisions through heads of departments or sections.

Members of Management

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|---------------------|------------|---|
| Aleš Hušák | 48 | General Manager |
| Roman Ječmínek | 66 | Statutory deputy to the General Manager |
| Josef Tupý | 59 | First Deputy to the General Manager, Head of Projects and Implementation Department |
| Jan Prádl | 47 | Second Deputy to the General Manager, Head of Finance |
| Jiří Hosnedl | 43 | Head of Operation and Information Technology |
| Markéta Štěrbová | 48 | Head of Administrative Division |
| Ivo Tajšl | 44 | Head of Games and Betting |
| Miloslava Klikarova | 49 | Head of Distribution Network |
| Petr Machovský | 36 | Head of Independent Trading Department |
| Josef Prouza | 48 | Head of Independent Promotions and Public Relations Department |
| Hynek Siedek | 51 | Section Head of the Secretariat of the General Manager |
| Jiří Barnat | 36 | Mandated Head of Independent Ownership Interests Department |
| Pavel Volf | 32 | Head of Independent Dispatching Department |
| Richard Prorok | 51 | Secretary to the General Manager |

The business address for each member of SAZKA's management is SAZKA, K Žižkovu 851, 190 93, Prague 9, Czech Republic. In addition to their position as a member of SAZKA's management, the following individuals (not being Directors or Supervisory Board members whose outside interests are outlined above) also hold the following positions:

- Josef Tupý — Member of the Board of Directors of BUSINESS CENTRE SERVICE, a.s.;
- Jiří Hosnedl — Member of the Board of Directors of SAZKA's subsidiary KPS MEDIA a.s (formerly KABEL PLUS SPORT, a.s.);
- Markéta Štěrbová — Member of the Supervisory Board of SKIAREÁL Špindlerův Mlýn, a.s.;
- Ivo Tajšl — Chairman of the Board of Directors of SAZKA's subsidiary KOLBY, a.s.;
- Josef Prouza — Member of the Board of Directors of SAZKA's subsidiary KPS MEDIA a.s (formerly KABEL PLUS SPORT, a.s.); member of the Executive Board of NADACE SAZKA and member of the Board of Directors of Nakladatelství Olympia, a.s.;
- Hynek Siedek — Member of the Executive Board of NADACE SAZKA; executive director of KŘIŠŤÁL spol. s r.o.;
- Richard Prorok — Deputy chair of the Supervisory Board of SAZKA's subsidiary BUSINESS CENTRE SERVICE, a.s.; and
- Petr Machovský — Member of the Board of Directors of GTECH Czech Republic LLC.

To the best of the Issuer's knowledge, there are no potential conflicts of interest between any of the duties of the members of SAZKA's senior management and their private duties or interests.

DESCRIPTION OF OSZO

The Co-obligor

OSZO is the Co-obligor under the Bonds and is jointly and severally liable with SAZKA for its obligations in respect of the Bonds. OSZO is a Czech civic association established under the Civic Association Act, and registered with the Ministry of the Interior of the Czech Republic on 26 May 2003. OSZO's registered office is at Českomoravská 2345/17, 190 93, Prague 9, Czech Republic and the telephone number of its registered office is +420 266 12 11 11. OSZO is domiciled in the Czech Republic and its registration number is 26628821. OSZO's members are nine civic associations involved in Czech sport and physical education which are SAZKA's shareholders. OSZO was created to acquire SAZKA Arena from Bestsport (and thereby to fund Bestsport's liabilities that were incurred in connection with the construction of SAZKA Arena) and to participate in the relevant financing as a co-obligor of the Bonds in order to support the regulatory treatment of payments under the Mandatory Contribution Agreement as "good cause payments". For further details on OSZO's role in the issue of the Bonds and the regulatory treatment of payments by it under the Conditions, see the section entitled "*Description of Certain Underlying Transactions.*"

Description of a Czech Civic Association

Under the Civic Association Act, citizens of the Czech Republic may, in the exercise of their constitutional freedom of association, elect to form a civic association as a specific type of legal entity. A civic association enjoys full legal capacity and possesses full contractual freedom to the same extent. Membership in a civic association is voluntary, and members cannot be forced to become or cease to be a member of a civic association. The establishment of a civic association requires the execution of Articles of Association and registration with the Ministry of Interior. The internal organisation of a civic association is regulated by its Articles of Association.

The Civic Association Act provides for certain restrictions on the purpose and activities of civic associations. For example, a civic association may not be used for (i) political parties or movements, (ii) exclusively for the conduct of profit-making activities or (iii) churches or religious societies, because entities and activities are regulated by other statutory legislation in the Czech Republic. In addition, the purpose and activities of a civic association may not violate any law of the Czech Republic. The failure to comply with such restrictions may result in the dissolution of a civic association by the Ministry of Interior. Pursuant to OSZO's Articles of Association, members of OSZO may not act in contravention to such restrictions. OSZO has covenanted in the Conditions not to undertake activities and any actions which are inconsistent with the same.

Currently there are approximately 55,000 civic associations in the Czech Republic.

OSZO's Organisation and Purpose

As at 31 December 2005, the nine members of OSZO, each with an equal membership interest were the following organizations: Český svaz tělesné výchovy (Czech Physical Education Union (ČSTV)); Česká obec sokolská (Czech Sokol Community); Česká asociace Sport pro všechny (Czech "Sports for All" Association); Autoklub České republiky (Automotive Club of the Czech Republic); Sdružení sportovních svazů České republiky (Association of Sports Unions of the Czech Republic); Český olympijský výbor (Czech Olympic Committee); Český střelecký svaz (Czech Shooting Union); Asociace tělovýchovných jednot a sportovních klubů České republiky (Association of Physical Education Organisations and Sports Clubs of the Czech Republic); and Orel.

As a civic association, OSZO has no registered capital. Currently, each of its members contributes CZK 5,000 annually as a membership fee. OSZO receives income from Bestport for the use of SAZKA Arena members' contributions and certain payments from SAZKA. OSZO owns 90 per cent. of the shares in Bestsport. Pursuant to Article II of its Articles of Association, OSZO's activities include the creation of conditions favourable to the support of sports, physical education, culture and education as "good cause" activities, the support of the construction of sports facilities and their efficient usage, and the co-ordination of the activities of its members.

OSZO's financial statements for the years ended 31 December 2004 and 2005 are set out on pages F-51 – F-74 of this Prospectus. OSZO's independent auditors are BDO CS s.r.o. BDO CS s.r.o. is a member of the Chambers of Auditors of the Czech Republic and holds a Chambers of Auditors License No.18.

Corporate Governance of OSZO

The members of OSZO's Executive Council are Vladimír Srb, as chairman, and Milan Jirásek and Jaroslav Bernard, as vice-chairmen. Mr. Jirásek is also a member of the Board of Directors of SAZKA, a.s. He is also the Chairman of the Czech Olympic Committee, is involved as a director of Nadace SAZKA (The SAZKA Foundation) and is a member of the executive board of Česká Nadace Sportovní Reprezentace (The Foundation for Czech Sports Representation) Mr. Jirásek is also the Deputy Chairman of the Board of Directors of Arkadia, a.s.

Mr. Srb is the chairman of Český svaz tělesné výchovy (Czech Physical Education Union (ČSTV), the chairman of Český svaz plaveckých sportů (Czech Swimming Association), and a member of the Board of Directors of SAZKA, a.s. and is involved as a Member of the Board of Directors of its subsidiary, Agro Tera, a.s.

Jaroslav Bernard is the president of Česká obec sokolská (Czech Sokol Community), a member of the Board of Directors of SAZKA, a.s. and the chairman of the Supervisory Board of SPORTLEASE a.s.

In addition to the Executive Council, OSZO has a Supervisory Committee comprised of Jiří Dušek, Zdeněk Ertl, Jaroslav Pekař, Ladislav Kotík, Jan Rubeš and of its chairman, Jaroslav Němec.

In addition to their position on OSZO's Supervisory Committee, the following individuals also hold the following positions:

- Jiří Dušek — Director of the business department of Autoklub České republiky (Automotive Club of the Czech Republic), a member of the Supervisory Board of Agro Tera, a.s., and a member of the Supervisory Board of Automotodrom, a.s.;
- Zdeněk Ertl — Chairman of Sdružení sportovních svazů České republiky (Association of Sports Unions of the Czech Republic), member (vice-chairman) of the Board of Directors of Konstruktivní oceli a.s., chairman of the Board of Directors of DIXON, a. s., an Executive of DIXON CZ spol. s r. o., an Executive of První železářská společnost Kladno, s.r.o., and the chairman of the Executive Board of Česká rozvojová agentura, o.p.s. (Czech Development Agency);
- Jaroslav Pekař — President of Český střelecký svaz (Czech Shooting Union), chairman of the Board of Directors of ARKADIA, a.s., chairman of the Supervisory Board of SAZKA, a.s., and chairman of the Supervisory Board of the foundation NADACE SAZKA;
- Jaroslav Němec — member of the Supervisory Board of SAZKA, a.s. president of Asociace tělovýchovných jednot a sportovních klubů České republiky (Association of Physical Education Organisations and Sports Clubs of the Czech Republic), member of the Supervisory Board of KPS MEDIA a.s. (formerly KABEL PLUS SPORT, a.s.);
- Ladislav Kotík — member of the Executive Board and Secretary General of Orel; and
- Jan Rubeš — member of the management board and executive committee of Česká asociace Sport pro všechny (Czech "Sports for All" Association).

To the best of the Co-obligor's knowledge, there are no potential conflicts of interest between any of the duties of the members of its Executive Council and their private duties or interests.

OSZO has no employees.

RELEVANT CZECH LEGAL MATTERS

Regulation of Lotteries in Czech Republic

Business in the area of lotteries and odds betting games in the Czech Republic is regulated primarily by the Lotteries Act. Under Czech law, entities founded for the purpose of operating lotteries and betting games (under Section 4(6) of the Lotteries Act) pay no tax on income from lotteries and bets. Instead, they are obliged to pay a Part of Proceeds specified by the Lotteries Act (Section 4(2)) for “good causes”.

The Lotteries Act stipulates that lotteries and other than similar games, other in certain limited circumstances, may be operated solely subject to a licence issued by the Ministry of Finance or other competent administrative body. Such licence shall be issued if the applicant meets certain requirements as set out in the Lotteries Act. Under circumstances prescribed in the Lotteries Act, a regulator may also revoke a licence. In particular, a licence shall be revoked if circumstances occur or become known which would have precluded the issue of a lottery licence in the first place or if the information provided by the lottery applicant in its licence application were false. Furthermore, the licence may be suspended and/or revoked if the licence holder fails to meet its duties arising under the Lotteries Act or the respective licence.

The Lotteries Act also defines the rules applicable to operators of lotteries and other similar games. The licensed operators pay an administrative fee for every game licence, calculated from the difference between the game revenues and prizes paid to bettors.

Restrictions of Capital Nature

The Lotteries Act sets a higher limit on the amount of the registered capital of a joint-stock company engaging in betting and lottery activities in comparison to joint-stock companies engaged in other business activities. The minimum amount of the registered capital, which must not be reduced at any time during the term of the licence, differs according to the types of the lotteries and games operated, and it is as follows: CZK 100 million in respect of money lotteries and lotteries for in-kind prizes, number lotteries, instant lotteries and other similar games under Section 50(3) of the Lotteries Act; CZK 30 million in respect of bingo; CZK 10 million in respect of odds betting; and CZK 30 million in respect of betting games in casinos.

The Lotteries Act imposes an obligation to pay the “entry fee” in the form of a “security deposit”, being an amount of money the applicant for each individual licence has to deposit in a special bank account, which serves to secure the payment of certain financial obligations of the lottery operator specified in the Lotteries Act. Such security deposit shall be deposited for the whole term of the respective licence and the licence holder shall not dispose of it without the prior approval of the Ministry of Finance. From the security deposit, the claims payable to the government and municipalities (administration fees, government supervision charges, payments for publicly beneficial purposes, fines) shall be paid with priority. If the security deposit is not sufficient to satisfy all of the claims, then these claims shall be paid on a pro rata basis according to their respective amounts. After the settlement of the claims by the government and municipalities, the balance of the security deposit shall be used to pay the prizes to the bettors, if applicable, while such payments shall be made on the proportionate basis depending on their respective amounts. The amount of the security deposit required varies depending upon the different types of the lotteries and games. The security deposit is released after termination and settlement of the respective lottery or game.

The requirements set forth in the Lotteries Act with respect to the minimum amount of registered capital and the amount of the security deposit preclude entities with insufficient capital from conducting business in the industry.

Restrictions Concerning Legal Form

The Lotteries Act stipulates that lotteries and other similar games, with the exception of slot machines, may be operated solely by a joint-stock company (unless the lottery or game is operated by the state, the Ministry of Finance of the Czech Republic or a state organisation authorised by the Ministry) whose entire registered capital consists of registered shares and which has been established for the operation of lotteries and other similar games.

Restrictions on Foreign Competition

Pursuant to the Lotteries Act, the licence may only be issued to a legal entity with its registered seat in the Czech Republic and may not be issued to a domestic legal entity with foreign capital participation

or to a legal entity in which such company holds an ownership interest (this restriction does not apply to betting games operated in casinos). The Lotteries Act also prohibits the operation of foreign lotteries, including the sale of foreign lottery tickets, participation in betting in foreign countries where the wagers are paid to foreign countries and mediations of wagers for betting games operated abroad.

The provisions of the Lotteries Act in fact eliminate competition by foreign entities. However, there is no assurance that such restrictions on foreign competition are compatible with the principle of non-discrimination and free movement of services provided for in EU legislation.

Required Percentage of Prizes

Pursuant to the Lotteries Act, the aggregate amount of all prizes in lotteries may not be less than 20 per cent. or more than 50 per cent. of the game principal (to be computed as the product of the number of issued tickets and the sale price per one ticket or the number of bets made multiplied by the game principal). In certain cases, the Ministry of Finance may increase the aggregate value of prizes to 70 per cent. of the game principal.

The amount and structure of prizes in betting games depends upon the type of the betting game. The gaming plan approved by the Ministry of Finance with respect to each betting game must specify the method of calculation of the prizes.

The individual lottery licences provide for, *inter alia*, (i) the amount of tickets to be issued, (ii) the price of individual ticket, and (iii) the structure of the prizes. Similar information is made available to the bettors.

Mandatory Distribution of Part of Proceeds for Publicly Beneficial Purposes

Pursuant to Section 4(2) of the Lotteries Act, each holder of a licence for the operation of a lottery or other similar games shall distribute a Part of Proceeds to “good causes”. The minimal amount of this Part of Proceeds is calculated as the percentage identified in the following table (ranging from 6 per cent. up to 20 per cent.) of the amount by which revenues from lotteries and other similar games which are subject to accounting in a given financial year operated by the relevant operator exceed the amount of prizes paid by it, administrative fees, local charges and the cost of state supervision.

| <u>Difference in millions of CZK</u> | <u>up to 50</u> | <u>50-100</u> | <u>100-500</u> | <u>500-1000</u> | <u>over 1000</u> |
|--------------------------------------|-----------------|---------------|----------------|-----------------|------------------|
| Fixed percentage of proceeds | 6% | 8% | 10% | 15% | 20% |

Pursuant to Section 16 (1) of the Lotteries Act, every holder of a licence for a lottery is obliged to make regular distributions of prescribed percentage of its proceeds (as defined in the Lotteries Act) for those “good causes” which are defined in the Lotteries Act and the particular licence.

The amount of the Part of Proceeds to be distributed for “good causes” does not depend on other operating costs or cash outflows (including the repayment of bonds or other financing) incurred by the relevant lottery licence holder in connection with the lottery. As a result, the amount of Part of Proceeds to be distributed for “good causes” is, to a certain extent, independent of the amount of lottery licence holder’s actual profits (or loss).

Shareholders’ Resolution in General Meeting

Czech law requires that certain decisions relating to matters material to a joint stock company be resolved by the company’s shareholders in a general meeting. In addition, the Articles of Association of joint stock companies — as in the case of SAZKA and Bestsport — may reserve certain matters for consideration of the general meeting.

When a resolution of the general meeting is required, 30 days or 15 days notice of the general meeting must be given, either by being published or by letter of invitation sent, before the general meeting may take place. Pursuant to the Czech Commercial Code, each shareholder, member of the Board of Directors or Supervisory Board of a joint-stock company may, within a period of three months from the date of general meeting, petition the court to declare invalid a decision of such general meeting, should such decision breach the statutory provisions, the company’s Articles of Association or its foundation deed. In the event that the general meeting was not properly convened, such petition may be filed within three months from the day when the respective person could have learned of the holding of such general meeting, but no later than one year after the date of general meeting.

Upon receipt of such petition, the court decides upon its merits except that it shall not declare the invalidity of a general meeting's decision in certain circumstances, in particular if: (i) the breach resulted only in a minor (immaterial) violation of the rights of the entitled persons; (ii) such breach did not have any significant legal consequences, or (iii) the declaration of invalidity would result in a substantial interference with the third party rights acquired in good faith. If the general meeting's resolution is declared invalid by the court, the company would be liable for damage arising as a result of the general meeting's decision being in breach of the statutory provisions, the company's Articles of Association or its foundation deed.

In connection with the proceedings concerning the declaration of invalidity of a general meeting's decision, the respective plaintiff may seek the imposition of a preliminary injunction upon the company or other person(s) if it is necessary for the interim regulation of the relationships of participants to the proceedings or if there are concerns that the enforcement of the judgment to be issued in such proceedings might be put at risk. Such preliminary injunction may, *inter alia*, order the company or other persons to take a specific course of action or to refrain from certain actions, including, without limitations, dispositions with their assets or rights.

Insolvency Law in the Czech Republic

Currently applicable provisions of Czech insolvency law are contained in Act No. 328/1991 Coll., as amended (the "**Current Bankruptcy Code**"). However, the Current Bankruptcy Code shall be replaced by the new bankruptcy code of 30 March 2006 which was published on 9 May 2006 as Act No. 182/2006 Coll. (the "**New Bankruptcy Code**"). The New Bankruptcy Code shall become effective on 1 July 2007, with the current rules continuing to apply to insolvency proceedings commenced prior to such date.

Current Bankruptcy Code

The Current Bankruptcy Code shall apply until 30 June 2007, as the effective date of the New Bankruptcy Code is 1 July 2007. In addition, the Current Bankruptcy Code will continue to apply to insolvency proceedings commenced prior to the effective date of the New Bankruptcy Code.

Under the Current Bankruptcy Code, a legal entity may be declared bankrupt if it has at least two creditors with receivables due and either entity is unable to pay its debts as they fall due for a longer period of time or its obligations due exceed the value of its assets (taking into account certain future yields). Declaration of bankruptcy over the debtor's assets results in the nullity of all security interests created within a two month period prior to the filing of a petition for a declaration of bankruptcy or after such filing. Also, upon a declaration of bankruptcy, certain legal acts of the debtor made up to six months before the filing of a petition for the declaration of bankruptcy shall be ineffective with respect to the bankrupt entity's creditors, *e.g.* transfers of assets on apparently disadvantageous terms or assumption of obligations disproportionate to the bankrupt entity's assets. In general, contracts for mutual performance concluded by the debtor which have not been entirely performed by all parties to the contract may be rescinded by either party.

The creditors whose receivables from the bankrupt debtor are secured by a Czech law-governed pledge or mortgage, or a transfer or assignment by way of security, are entitled to obtain up to 70 per cent. of the net proceeds of the sale of the encumbered asset for the satisfaction of their claim. The unsatisfied portion of the debt of a secured creditor is satisfied pro rata with all other unsecured receivables from the debtor. In the case of more than one security interest encumbering an asset, the creditors shall be satisfied in the order in which their security interests arose.

The third party easements encumbering the assets of a debtor shall not be affected by the bankruptcy, provided that the easements were not created on apparently disadvantageous terms within a two-month period prior to the filing of a petition for a declaration of bankruptcy or after such filing.

On the day of the declaration of bankruptcy, the claims of the creditors of the bankrupt entity (including the bondholders) become immediately due. However, individual creditors or their agent may not seek enforcement of their claims and must instead file them in the bankruptcy proceedings. Once the bankrupt entity's assets are sold, the proceeds are distributed to the creditors according to their rank as determined by bankruptcy legislation. Claims of creditors of the same rank are satisfied pro rata.

Instead of filing a petition for declaration of bankruptcy, a bankrupt debtor may submit a composition plan to the court. The composition plan must specify what satisfaction the debtor proposes to its creditors. The secured claims (*e.g.* claims secured by a mortgage over real estate) and priority claims

(e.g., certain claims of the employees) must be satisfied in full, while the claims of other non-secured creditors must be satisfied at least from 30 per cent. of their nominal value. The satisfaction proposed by the debtor may have various forms, including monetary payment, issue of new securities or transfer of title to the bankrupt debtor's assets. Upon delivery of the composition plan, the court shall request the creditors to declare their receivables and order a creditors' meeting. The composition plan must be approved by a simple majority of votes of all creditors representing at least three quarters of the aggregate value of all declared receivables (the secured creditors are not included in the voting quorum). If the composition plan is not approved, the court shall declare bankruptcy over the assets of the debtor. If the plan is approved, the debtor is obliged to perform it and satisfy the creditors in the proposed manner. Please note that the complexity and ambiguity of rules regulating the composition process make the composition a rather rare solution for the bankrupt debtors (approximately one per cent. of all bankruptcies are resolved by composition).

New Bankruptcy Code

Under the New Bankruptcy Code, effective from 1 July 2007, a legal entity may be declared insolvent if it has at least two creditors and either (i) has debts more than 30 days after their due date which it is unable to pay or (ii) its total liabilities exceed the value of its assets (taking into account further operation of its business). Insolvency can also be declared if the debtor files an insolvency petition and there are reasons to believe that the debtor will be unable to timely satisfy a substantial part of its debts.

Insolvency proceedings are commenced upon the filing of an insolvency petition which is then published by a court in the insolvency register. Once an insolvency petition is published, the debtor's unsecured creditors and creditors secured by assets which belong to the bankruptcy estate may, in general, assert their rights only in accordance with the New Bankruptcy Code, under which the debtor is prohibited from disposing of its assets. Within a certain period of time following the filing of an insolvency petition, the debtor may also file for a moratorium.

A declaration of bankruptcy over the debtor's assets and the publication thereof in the insolvency register renders ineffective all security interests acquired by the debtor's creditors after the publication of the insolvency petition in the insolvency register and all easements created in favour of creditors under strikingly disadvantageous conditions after the publication of the insolvency petition in the insolvency register. In addition, certain legal acts of the debtor entered into within one, three or five years (depending on the circumstances surrounding such acts) prior to the commencement of the insolvency proceedings may be avoided, i.e., be declared by a court to be void action (in Czech: *odpůrčí žaloba*), as ineffective *vis-à-vis* the bankruptcy trustee, the creditors and the bankruptcy estate. Transactions which may on certain conditions be avoided include, inter alia, (i) transactions entered into by the debtor with a related party without adequate compensation, (ii) transactions favouring certain creditors, such as the payment of a debt by the debtor before its maturity, the modification of an obligation to the disadvantage of the debtor or the provision of security for pre-existing debt and (iii) transactions by which the debtor intentionally averts satisfaction of the creditor's claim.

Moreover, another effect of a declaration of bankruptcy over the debtor's assets and the publication thereof in the insolvency register is that contracts concluded by the debtor and requiring mutual performance which have not been entirely performed neither by the debtor nor by other parties to the contract may be either assumed or rescinded by the bankruptcy trustee. Furthermore, there are specific rules on leases and similar agreements for instance, lease, sublease and finance lease contracts entered into by the debtor may be terminated by the trustee under certain conditions upon a notice of termination of up to three months.

On the day of publication of the insolvency petition in the insolvency register, the claims of the creditors of the bankrupt debtor (including the bondholders) generally become immediately due. However, individual creditors or their agent may not seek direct enforcement of their claims and must instead file them in the insolvency proceedings. Court and administrative proceedings are suspended, subject to certain exceptions, such as proceedings on entries of rights in real estate if the date as of which the right is to be recorded precedes the insolvency petition.

Secured creditors (such as creditors whose receivables from the bankrupt debtor are secured by a pledge or mortgage) are entitled to have their receivables satisfied from the proceeds of the encumbered assets (after the deduction of insolvency administrative costs not exceeding 5%, trustee's compensation not exceeding 4% and the trustee's fees.) In the case of more than one security interest encumbering an asset, creditors are satisfied in the order in which their security interests arose. The unsatisfied portion of

the secured receivable is treated as an unsecured receivable. Once the assets belonging to the debtor's estate are sold, the proceeds are distributed to the creditors according to their rank determined by bankruptcy legislation or, in certain cases, agreed by creditors. Claims of creditors of the same rank are satisfied *pro rata*.

Instead of filing a petition for declaration of bankruptcy, a bankrupt debtor or its creditor may file a petition for reorganisation of the debtor. Reorganisation is not permissible if the debtor, for the financial year preceding the insolvency petition, did not exceed CZK 100 million in revenue or if the debtor has less than 100 full-time employees. If reorganisation is allowed by the insolvency court, a reorganisation plan must be submitted to the insolvency court by the debtor or, under certain conditions, by other persons. The insolvency court will approve the reorganisation plan if it complies with applicable provisions of law, does not appear to serve dishonest intentions and was approved by votes of creditors representing the majority of the value of receivables in each class of creditors. Each secured creditor constitutes a separate class. Absent approval by each class of creditors, the reorganisation plan may also be approved by the insolvency court if it was approved by at least one class of creditors and such plan secures equal treatment for each receivable within each class of creditors which failed to approve the reorganisation plan and fair treatment in relation of each class of creditors. If the reorganisation plan is not approved or is not successfully implemented, the insolvency court declares bankruptcy over the debtor's assets.

In addition, under the New Bankruptcy Code, an insolvent debtor that is not an entrepreneur (which may possibly include civic associations such as the Co-obligor) may, alongside with its insolvency petition, file for a discharge (in Czech: *oddlužení*). The discharge may be effected by means of a sale of the debtor's assets (generally under the same provisions as those applicable to the declaration of bankruptcy) or by means of gradual payment over the period of five years by debiting the debtor's future income. In both cases, the receivables of secured creditors are generally satisfied under the same rules as those applicable to the declaration of bankruptcy. Only unsecured creditors can vote as to whether the discharge is effected by means of a forced sale or a rescheduling. The insolvency court must reject the discharge if it appears to serve dishonest intentions or if unsecured creditors will receive less than 30 per cent. of their receivables (unless such creditors agree with a lower percentage).

The New Bankruptcy Code is much more complex than the Current Bankruptcy Code and it lacks any interpretation and precedent. Consequently, its impact, as well as the way it shall be interpreted and applied by the Czech courts, can hardly be determined or anticipated in any precise manner.

The Bond Security

Assets Protected from Enforcement

The following assets of the debtor cannot be subject to enforcement proceedings in the Czech Republic:

- (i) movables and immovables, whose forced sale would be incompatible with the principles of good morals;
- (ii) movables and immovables which a party needs for the purposes of conducting its business activity unless such movables or immovables were pledged or mortgaged as security;
- (iii) compensation receivables payable to the debtor by an insurance company under an insurance policy where the compensation is to be used for the new construction of a building or its re-construction;
- (iv) monetary social security benefits and benefits of state social support payable in a single lump-sum;
- (v) bank account receivables the balance of which has been allocated, either in whole or in part, for a specific purpose;
- (vi) movables and immovables, the sale of which is prohibited by special law;
- (vii) claims for repayment of money which constitutes financial collateral; and
- (viii) securities so long as they are a financial collateral.

It is possible that the funds of SAZKA or of OSZO corresponding to the Part of Proceeds pursuant to the Lotteries Act would be treated as funds which can be used only for a specific purpose pursuant to (v) above and would therefore be immune from enforcement following acceleration of the Bonds if the legal relationship under which the enforced receivable has arisen does not meet the criterion of a "publicly beneficial purpose" within the meaning of the Lotteries Act. See "*Risk Factors — Risks Relating to the Bonds — Enforceability*".

It is also possible that SAZKA (and/or OSZO should it exceed the relevant threshold tests specified for a financial collateral provider in the legislation applicable from time to time) could provide banks or other qualified collateral takers with financial collateral in the form of stock (including the stock in Bestsport held by it) and other financial instruments, money credited to an account or money market deposits, in which case such financial collateral would be immune from enforcement following acceleration of the Bonds.

Mortgages in the Czech Republic

A mortgage gives the creditor the right to satisfy its secured due claim from the proceeds of a forced sale of the mortgaged assets. The establishment of a mortgage requires (i) the execution of a written mortgage agreement between the mortgagor and the mortgagee (the creditor), and (ii) the registration of the mortgage in the Czech Cadastral Registry. The registration process may take from several weeks to several months depending on the backlog of registration requests placed with the relevant regional Cadastral Office. In the Prague region, the registration of a mortgage usually takes two to six months to complete.

If a claim secured by a mortgage is not satisfied when due, the creditor may seek any of the following statutory methods of enforcement: (i) court sale or (ii) an out-of-court public auction. In addition, the creditor whose secured receivable is not satisfied when due may opt for enforcement of the receivable in standard execution proceedings available to all unpaid creditors (whether secured or unsecured). The issuance by the court or by an executioner of an execution order (or a Court Sale Order as described below) at the request of any creditor prevents the respective asset from being sold in an out-of-court public auction. Several special rules apply in bankruptcy or composition. Irrespective of whether the mortgaged asset is owned by the debtor itself or by a third party, the parties cannot agree in the mortgage agreement on another form of enforcement, since any such arrangement (*e.g.* transfer of title of the mortgaged asset to the creditor upon the occurrence of an event of default) would be void *ab initio*.

The sale of a mortgaged asset does not necessarily result in the acquirer obtaining vacant possession of such property. It may therefore be necessary for the acquirer to bring a separate court action to force the mortgagor to vacate the respective property. In addition, easements and leases (notwithstanding the fact that a creditor or acquirer may have no knowledge of them) are binding on an acquirer of real property. Therefore, if the mortgagor executes a long-term, below-market rent lease, the value of the creditor's collateral may be significantly reduced.

In general, claims secured by means of a mortgage are satisfied in accordance with the chronological priority of creation. Depending on which type of enforcement proceeding is undertaken, prior ranking mortgages might under certain circumstances (either automatically or upon election of the relevant secured creditor), survive a forced sale by a subordinated security holder and passed onto the new owner, in which case, only the mortgage which was terminated as a result of such forced sale would be satisfied by that enforcement proceeding.

Enforcing a Mortgage in the Czech Republic by a Court Ordered Sale

Obtaining a Court Sale Order

A creditor secured by a mortgage who intends to satisfy its past-due receivable by a court sale of the mortgaged real property can file a petition with the competent Czech court requesting the court to order the sale of the mortgaged asset. In such petition, the secured creditor will have to provide the court with satisfactory evidence of (i) the existence of the receivable, and its amount, (ii) the existence of the mortgage securing the receivable and (iii) the identity of the owner of the mortgaged assets. The Security Agent will seek to prove its claim by submitting certified copies of the Trust Deed, the Mortgages and the Enforcement Agreement. Upon verification of the existence of the creditor's receivable, the mortgage and its owner, the court shall issue a resolution ordering the sale of the mortgaged asset (the "**Court Sale Order**").

The Execution of a Court Sale Order by a Court Auction

Following the issuance of the Court Sale Order, the court shall procure for the execution (involuntary enforcement) in respect of the mortgaged asset identified in the Court Sale Order. The execution proceedings are subsequent to, and separate from, the proceedings concerning the issuance of the Court Sale Order.

The Court Sale Order is executed through an auction organised by the court. Prior to the auction, the value of the mortgaged asset shall be appraised by a court-appointed expert. All bidders in the auction must pay an auction bond in the amount set by the court. In the initial court auction, the minimum bid price equals to two-thirds of the value of the asset determined by the expert opinion. If the initial court auction ends without a sale, the court will, at the request of the creditor, order the court auction to be repeated. In the repeated auction, the minimum bid price equals to one half of the value of the asset determined by the expert. The repeated court auction may not be held earlier than three months following the date of the initial court auction. Should the initial or repeated court auction be successful, the court will distribute the proceeds from the sale of the mortgaged asset (net of costs of the auction(s)) to the concerned creditors in the following order:

- (i) creditors (if any) under mortgage loans serving to cover mortgage-backed bonds (*hypoteční zástavní listy*) issued by registered mortgage banks (*hypoteční úvěry*, the “**Mortgage Loans**”),
- (ii) creditors whose claims are secured by a mortgage over real property, easement beneficiaries and lessees, and
- (iii) unsecured creditors (if any) which have an execution title.

The receivables of the creditors which fall in the same class are satisfied in accordance with their respective chronological priority determined on the basis of the date when the applicable mortgage, easement or lease on the sold asset was created and, in the case of unsecured creditors which have an execution title, the date of the filing of their respective applications for the court execution.

Upon its sale, the real property becomes free from all liens which encumbered it other than (i) residential leases, (ii) statutory easements, (iii) mortgages where the mortgagee agreed that the acquirer of the sold real property will assume the debtor’s obligations to the mortgagee, and (iv) liens under which the beneficiary agreed to compensation for its lien to be paid to the acquirer.

Enforcing a Mortgage in the Czech Republic by Out-Of-Court Public Auction

Execution Title

In order for a creditor to commence the out-of-court auction as a method of enforcing its claim, it must first obtain so-called “execution title”, for example a final court decision or a final arbitration award. In addition, a specific agreement on enforceability of a claim in the form of a notarial deed or an executioner’s deed may also serve as an execution title.

Major Potential Counter-Claims Of Debtors and Certain Third Parties

A person which asserts that the sale of a mortgaged asset in a public auction is not permissible may file for a court order against the secured creditor. Upon filing such action with the court, the creditor may not, in respect of the concerned mortgaged asset, conduct a public auction until the court issues its final decision. A plaintiff which files the described action on frivolous grounds shall be liable to the creditor for all losses incurred by such creditor as a result of the delay in the enforcement of the mortgage. Although the construction of the described provisions of the Czech Civil Code is not, at the present time, predictable in all respects, it may be reasonably expected that debtors and other eligible parties may attempt to use this possibility to effectively stop the enforcement of the secured claim. It is likely that the statutory sanction against the frivolous actions will not represent a major threat to financially insolvent parties.

Under the Czech Public Auction Act, a debtor and a mortgagor (if it is a different person from the debtor) and certain other involved parties may request the court to declare the completed public auction invalid if the creditor was not entitled to conduct such auction or if the auction did not meet other statutory requirements. In addition, these persons may seek a preliminary injunction prohibiting pending public auction.

Organisation of Public Auction and Public Auction Process

Auctions under the Public Auction Act may be organised solely by a person with the appropriate trade licence (the “**Auctioner**”) who is subject to supervision by the Czech Ministry for Local Development. Public auctions are conducted on the basis of an agreement between the person proposing the auction and the Auctioner (the “**Public Auction Agreement**”), the mandatory terms of which are defined in the Public Auction Act.

When a Public Auction Agreement is concluded between the secured creditor and the Auctioner, the Auctioner is obligated to notify in writing the relevant debtor and/or mortgagor (if the mortgagor is a different person from the debtor). Upon receipt of such notification, any actions undertaken by these persons by which the relevant mortgaged asset would be transferred or encumbered or which would decrease its value in any other manner are invalid. The Auctioner must also send a notification of public auction concerning real estate to the Czech Cadastral Office so that it may register a note in the relevant record.

In case of a mortgage, an independent appraisal by a court-appointed appraiser must also be obtained. The person which has the mortgaged asset in its possession is obligated to allow such appraiser to value the mortgaged asset and, *inter alia*, to provide him with free access to the mortgaged asset and inspection thereof.

After the appraisal has been completed, the Auctioner must notify the public of the intended public auction. In the public notification, the Auctioner must specify, *inter alia*, the value of the mortgaged asset as determined in the appraisal, and the date when the mortgaged asset shall be available for public inspection, and must request other creditors who have a security right to the mortgaged asset to file their claims.

In the initial public auction the minimum bid price for the mortgaged asset may not be lower than one-half of the appraisal value. If the initial public auction is unsuccessful, the secured creditor may organise repeated public auction(s) where the minimum bid price for the mortgaged asset will be lowered to 70 per cent. of the minimum bid price of the immediately preceding public auction. Upon the sale of the mortgaged asset, only (i) contractual rights of first refusal and (ii) mortgages that were created after the oldest mortgage which was satisfied in the public auction, terminate. In contrast, mortgages that were created before the oldest mortgage which was satisfied in the public auction, statutory rights of first refusal, easements and leases remain unaffected by the sale of the mortgaged asset.

Should the initial or repeated auctions be successful, the Auctioner will distribute the proceeds of the sale of the mortgaged asset (net of the costs of the auction(s) and the remuneration of the Auctioner) to the concerned auction creditors in the following order:

- (i) beneficiaries of retention rights to the mortgaged assets and creditors whose claims are secured by mortgages that have, by operation of law, a preferred position,
- (ii) creditors who have filed proof of their claims under Mortgage Loans, and
- (iii) creditors who have filed proof of their claims that are secured by a mortgage or by restrictions on the transfer of real estate.

The receivables of the auction creditors which fall in the third of the above-listed classes are satisfied in accordance with the chronological priority of their claims determined on the basis of the date when the relevant mortgage was created.

Enforcing a Mortgage in the Czech Republic in Bankruptcy and Composition Proceedings

Instead of enforcing its secured receivable by a court sale or out-of-court public auction of the mortgage, the creditor may, in certain circumstances, file an insolvency petition in respect of the debtor and have its secured receivable satisfied in the course of the insolvency proceedings. Currently applicable rules on enforcing mortgages in insolvency proceedings are primarily contained in the Current Bankruptcy Code which shall, however, be replaced by the New Bankruptcy Code as of 1 July 2007. See "*Relevant Czech Legal Matters — Insolvency Law in the Czech Republic*". The Current Bankruptcy Code will continue to apply to insolvency proceedings commenced prior to the effective date of the New Bankruptcy Code.

Enforcing a Mortgage under Current Bankruptcy Code

In its decision on declaration of bankruptcy, the court shall appoint the bankruptcy administrator to manage the debtor's assets and request the creditors to declare their receivables within a period not shorter than 30 days. The creditors are obliged to declare their receivables and present evidence of their existence. The administrator shall inspect all receivables declared by the creditors and draw up their list. In the list, the administrator shall identify whether he admits or contests individual receivables. After the court receives the list of submitted receivables, it shall order a review hearing. At the review hearing, any creditor may contest the authenticity, amount or priority of any receivable declared by another creditor.

Generally, if a receivable is contested by the administrator or by another creditor at the review hearing, the creditor who declared such receivable shall, within 30 days, file a suit with the court to assert its receivable. However, for receivables the execution title to which has already been confirmed, for example by a notarial deed such as the Enforcement Agreement or by an enforceable court order, the burden of initiating the court procedure for refusing the receivable from bankruptcy lies with the bankruptcy administrator or on the creditor who contested such receivable. The court shall determine the existence and amount of the contested receivable in separate proceedings.

With the cooperation of the creditors, the administrator shall draw up a list of assets to be included in the bankruptcy estate. The administrator shall include in the bankruptcy estate all of the assets of the debtor and also the assets which are encumbered by a mortgage or similar right securing any claim against the bankrupt debtor. The administrator is entitled to sell all of the assets included in such list, unless its owner or another person files a suit requesting the court to exclude the respective asset from the list. The administrator shall sell the assets in a public auction, by a court sale or, with the prior approval of the court, in a direct sale.

Secured creditors of a bankrupt debtor are entitled to request that their secured receivables be satisfied from the proceeds of the sale of the respective collateral. Satisfaction of secured receivables from the sale of the collateral is limited to 70 per cent. of the net sale proceeds. The remaining portion of the sale proceeds is distributed among the unsecured creditors. The portion of a secured receivable that was not satisfied from the proceeds of the sale is treated as an unsecured receivable. The aforesaid distribution of this part of the proceeds from the sale of the collateral to other creditors makes the bankruptcy proceedings usually a less-preferred option of enforcement for secured creditors. The proceeds of the sale of the remaining assets included in the bankruptcy estate are distributed to the creditors after the court approves the final report of the administrator. Certain claims against a debtor, for example claims of the employees or remuneration of the administrator, are satisfied with a priority. All remaining unsecured receivables are satisfied *pro rata* from the remainder of the proceeds of the sale of debtor's assets.

Czech law is not completely settled as to situations where a mortgagor that has provided its assets as a mortgage security for someone else's obligations is declared bankrupt. In particular, it is not certain whether in such situation, a creditor secured by such mortgage can directly apply its claim in the bankruptcy proceeding over the mortgagor's assets. According to certain legal sources, such a secured creditor could nevertheless sue the bankruptcy trustee of the mortgagor to have the charged property excluded from the bankruptcy estate and, according to certain recent court decisions, such a claim can successfully be raised by the bankruptcy trustee of the direct obligor (*i.e.* a debtor) where both entities were declared bankrupt. In any event, in the absence of statutory amendment or an authoritative position adopted by the relevant Czech courts, the ability of the secured creditor to receive benefit of a mortgage where a mortgagor which is not the debtor is declared bankrupt might depend on certain other circumstances, such as when the debtor is declared bankrupt and the promptness with which such bankruptcy proceedings are undertaken.

Bankruptcy proceedings in the Czech Republic usually take three to five years to complete. On average, unsecured creditors obtain less than 10 per cent. of their unsecured claims.

Enforcing a Mortgage under New Bankruptcy Code

Secured creditors (*i.e.* creditors whose receivables are secured by assets included in the bankruptcy estate) may assert their receivables by filing a proof of claim in which they must invoke and certify their security interest and enclose relevant documents.

In insolvency proceedings, the bankruptcy court appoints a bankruptcy administrator to manage the debtor's assets and requests the creditors to declare their receivables within a period not shorter than 30 days and not longer than two months. The creditors are obliged to declare their receivables and present evidence of their existence. The administrator inspects all receivables declared by the creditors and draws up a list of such receivables. In the list, the administrator identifies whether he admits or contests individual receivables. After the court receives such list of submitted receivables, it orders a review hearing. At the review hearing, the administrator or the debtor may contest the authenticity, amount or priority of any receivable declared by a creditor; individual creditors do not have this right. Contestation of a receivable by the debtor is not relevant for the purposes of determining such receivable's existence in the insolvency proceedings. Generally, if a receivable is contested at the review hearing, the creditor who declared such receivable may file an action for declaratory judgment against the administrator within the later of (i) 30 days from the review hearing and (ii) 15 days from the delivery to the creditor of a

contestation notice. However, for receivables the execution title to which has already been confirmed, for example by a notarial deed such as the Enforcement Agreement or by an enforceable court decision, the burden of initiating the court procedure for refusing the receivable from bankruptcy lies with the bankruptcy administrator. The insolvency court determines the existence and amount of the contested receivable in separate proceedings.

With the cooperation of the debtor and the creditors, the administrator draws up a list of assets to be included in the bankruptcy estate. If the insolvency petition was filed by the debtor, the bankruptcy estate includes all assets of the debtor as of the commencement of the insolvency proceedings and assets acquired later; if the insolvency petition was filed by a creditor, the bankruptcy estate includes all assets of the debtor as of the date of the preliminary injunction restricting the debtor's right to dispose of assets and also all assets of the debtor as of the decision on bankruptcy or those subsequently acquired by the debtor. Assets owned by third parties are included in the bankruptcy estate where provided by law, including in particular, cases where certain transactions are deemed to be ineffective, and such assets are treated as the debtor's assets. On the other hand, the bankruptcy estate does not include those of the debtor's assets which are required by law to be used only for a specific purpose or which cannot be subject to court attachment in execution proceedings. The inclusion of an item on the list of assets to be included in the estate can be challenged by persons claiming to have rights incompatible with such inclusion or for other reasons; and by the debtor, but only in respect of assets which are required by law to be used only for a specific purpose or which cannot be subject to court attachment in execution proceedings. Assets that belong to the bankruptcy estate can be sold in a public auction, by a court sale or, with a prior approval of the insolvency court and the creditors' committee, outside a public auction. When selling assets that serve to secure a receivable, the administrator is obliged to follow secured creditors' instructions.

Secured creditors (such as creditors whose receivables from the bankrupt debtor are secured by a pledge or mortgage) are entitled to have their receivables satisfied from the proceeds of the encumbered assets (after the deduction of insolvency administrative costs not exceeding 5 per cent., trustee's compensation not exceeding 4 per cent. and the trustee's fees. In the case of more than one security interest encumbering an asset, creditors are satisfied in the order in which their security interests arose unless they agree otherwise. The unsatisfied portion of the secured receivable is treated as an unsecured receivable. The proceeds of the sale of the remaining assets included in the bankruptcy estate are distributed to the creditors after the court approves the final report of the administrator. However, certain claims against the debtor (*e.g.* certain claims of the employees, remuneration of the administrator, costs relating to the administration of the bankruptcy estate) are satisfied with a priority and can be satisfied prior to the final report of the administrator. All remaining unsecured receivables are satisfied pro rata from the remainder of the proceeds of the sale of debtor's assets.

As an alternative to a declaration of bankruptcy, reorganisation may be permitted under certain conditions in respect of the insolvent debtor. See the section entitled "*— Insolvency Law in the Czech Republic — New Bankruptcy Code*". In such case, the reorganisation plan sets forth, inter alia, the proposed means of implementing the reorganisation such as restructuring receivables, sale of the debtor's estate or business, transfer of selected assets to creditors or to their subsidiary, merger, issuance of new shares and/or additional financing. The debtor is then responsible, under the creditors' control, for the implementation of the reorganisation plan. If the debtor fails to fulfill its obligations, the insolvency court declares, under certain conditions, bankruptcy over the debtor's assets.

In addition, discharge may also be permitted under certain conditions in respect of an insolvent debtor if the debtor is not an entrepreneur. See the section entitled "*— Insolvency Law in the Czech Republic — New Bankruptcy Code*". In the event of a discharge, the receivables of secured creditors are generally satisfied under the same rules as those applicable to the declaration of bankruptcy.

Pledges of Certificated Bearer Securities in the Czech Republic

A pledge over certificated bearer securities gives a creditor the right to satisfy its secured claim from the proceeds of a forced sale of such securities. A pledge over certificated bearer securities requires (i) the execution of a written pledge agreement between the pledgor and the pledgee (the creditor), and (ii) the delivery of the pledged certificated bearer securities to the creditor (or, together with the written pledge agreement, to the custody of an agreed third party) to be effective.

If the receivable secured by a pledge is not satisfied when due, the creditor may satisfy such receivable from the proceeds of a sale of the securities organised by a licensed securities dealer. Several

special rules apply in bankruptcy or composition. Irrespective of whether the pledged securities are owned by the debtor itself or by a third party, the parties cannot agree in the pledge agreement on another form of enforcement, as such arrangement (*e.g.* transfer of title to the pledged securities to the creditor upon the occurrence of an event of default) would be void *ab initio*.

Enforcing a Pledge of Certificated Bearer Securities in the Czech Republic

If the receivable secured by a pledge over securities is not fully satisfied when due, the creditor is entitled to satisfy the unpaid portion of such receivable from the proceeds of the forced sale of the pledged securities. The creditor shall give a prior notice of its intention to sell the pledged securities to the pledgor.

In the case of securities that are not registered for trading on public markets, the sale shall take the form of an out-of-court public auction organised by a licensed securities dealer. With certain exceptions indicated below, the out-of-court public auction of securities shall follow identical rules as the out-of-court-auction of mortgaged real property. See the section entitled “— *Enforcing a Mortgage in the Czech Republic by Out-Of-Court Public Auction*” for a further description of this process. Also, the debtor or any other third person may also challenge the out-of-court public auction of securities on the same basis as for out-of-court public auctions of real property, see “— *Major Potential Counter-Claims of Debtors and Certain Third Parties*”.

Prior to the sale in a public auction, a prospectus of the securities offered for sale may need to be drawn up, approved by the Czech National Bank and published.

For the purposes of the out-of-court public auction of securities, a creditor does not need to obtain an Execution Title in the same manner as for an out-of-court public auction of real property. However, the creditor must present to the securities dealer sufficient evidence that the debtor failed to pay its receivable when due and that the receivable was secured by a pledge over the securities that are proposed to be sold.

After the public auction, the securities dealer shall submit to the creditor the proceeds of the sale, less the costs of the public auction and the fees of the securities dealer.

Rights of Unsecured Creditors

Czech law provides for standard execution proceedings available to all unpaid creditors (secured or unsecured) who have obtained an execution title (such as a final court decision, final arbitration award, or agreement on enforceability in the form of a notarial deed or an executioner’s deed) against a debtor. The initiation of such execution proceedings by an unpaid creditor (secured or unsecured) may lead to a forced sale of some or all of the debtor’s assets, including assets which have been pledged. The receivables of the creditors which fall in the same class are satisfied in accordance with their respective chronological priority determined on the basis of the date when the applicable pledge, easement or lease on the sold asset was created and, in the case of unsecured creditors which have an execution title, the date of the filing of their respective applications for the court execution.

TAXATION

The following is a general description of certain Czech Republic tax considerations relating to the Bonds. It does not purport to be a complete analysis of all of the tax considerations relating to the Bonds. It 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 nor the individual circumstances, financial situation or investment objectives of an investor in the Bonds. Prospective purchasers of Bonds should consult their own tax advisers as to the consequences under the tax laws of the country in which they are resident for tax purposes and the tax laws of the Czech Republic of acquiring, holding and disposing of Bonds and receiving payments of interest, principal and/or other amounts under the Bonds. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Under the existing laws and regulations of the Czech Republic and their prevailing interpretations, interest income on the Bonds (issued abroad) of an individual who is not for tax purposes treated as a resident of the Czech Republic or of a legal person which is not for tax purposes treated as a resident of the Czech Republic (together, “**Non-Czech Holders**”), not holding the Bonds through a permanent establishment in the Czech Republic, will not be subject to taxation in the Czech Republic, and no withholding of any Czech tax will be required on any such payments. In addition, income or gains realised by Non-Czech Holders (not holding the Bonds through a permanent establishment in the Czech Republic) from the sale or exchange of the Bonds to a Non-Czech Holder (not acquiring the Bonds through a permanent establishment in the Czech Republic) will not be subject to any Czech income or capital gains tax. Income or gains realised by Non-Czech Holders (not holding the Bonds through a permanent establishment in the Czech Republic) from the sale or exchange of the Bonds (a) to an individual who is for tax purposes treated as a resident of the Czech Republic or to a legal person which is for tax purposes treated as a resident of the Czech Republic (together, the “**Czech Holders**”) or (b) to a permanent establishment of another Non-Czech Holder will not be subject to any Czech income or capital gains tax provided that the Non-Czech Holder realising the income or gains 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 (subject to compliance by the Non-Czech Holder realising the gains with the conditions of such treaty) any income or capital gains tax on capital gains realised by the Non-Czech Holder from the sale or exchange of the Bonds to such Czech Holder or a permanent establishment of such other Non-Czech Holder. No Czech stamp duty, registration, transfer or similar taxes will be payable in connection with the acquisition, ownership, sale or disposal of the Bonds by Non-Czech Holders.

EU Directive on the Taxation of Savings Income

On 3 June 2003, the ECOFIN Council of the European Union adopted a Directive on taxation of savings income in the form of interest payments (Council Directive 2003/48/EC) (the “**Directive**”). The aim of the Directive is to ensure effective taxation of saving income in the form of interest payments paid by one EU Member State to the beneficial owners, who are the tax residents in another EU member state, and in compliance with the tax regulation of that other Member State. Subject to a number of important conditions being met, with effect from 1 July 2005, Member States are required to provide to the tax or other relevant authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of Luxembourg, Belgium and Austria to opt for a transitional period in relation to such payments instead of an automatic exchange of information, to apply withholding tax at source with withholding taxes rates rising over time to 35 per cent. Any withholding tax levied pursuant to the Directive may be in addition to any domestic withholding tax levied by Member States.

In order to fulfil the aims of the Directive, agreements with certain third countries were concluded (Switzerland, Lichtenstein, San Marino, Monaco and Andorra) and with certain dependent or associated territories of the United Kingdom and the Netherlands (Jersey, Guernsey, Isle of Man, Anguilla, Monsterrat, British Virgin Islands, Cayman Islands, Turks & Caicos, Netherlands Antilles and Aruba). These countries should also as at 1 July 2005 apply principles of the Directive, which is either an automatic exchange of information or the application of the withholding tax at source.

The Directive has been implemented into Czech law.

PLAN OF DISTRIBUTION

Subscription Agreement

Credit Suisse Securities (Europe) Limited (the “**Lead Manager**”) has, in a subscription agreement (the “**Subscription Agreement**”) and made between the Issuer, the Co-obligor, Bestsport and the Lead Manager upon the terms and subject to the conditions contained therein, agreed to subscribe and pay for those Bonds that are not being offered pursuant to an Exchange Offer and Consent Solicitation Memorandum dated 14 June 2006 in relation to the Original Bonds, at their issue price of 99.402 per cent. of their principal amount less certain commissions. The Issuer and the Co-obligor have also agreed to reimburse the Lead Manager for certain of its expenses incurred in connection with the management of the issue of the Bonds. The Lead Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Bonds.

United States of America

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Lead Manager has represented, warranted and undertaken to the Issuer and the Co-obligor that it has not offered or sold, and agrees that it will not offer or sell any Bonds in any circumstances which would require registration under the Securities Act and agrees that it will not offer or sell, any Bonds constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S. Accordingly, (i) neither of the Lead Manager, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds, and (ii) the Lead Manager have each conducted the offering of the Bonds as an offshore transaction in compliance with Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S.

The Bonds are in bearer form and are subject to US tax law requirements, and may not be offered, sold or delivered within the United States or its possessions or to a US person, except in certain transactions permitted by US tax regulations. Under US Treas. Reg. §1.163-5(c)(2)(i)(C) (the “**C Rules**”), the Bonds must be issued and delivered outside the United States and its possessions in connection with their original issue. Terms used in this paragraph and the next paragraph have the meanings given to them by the US Internal Revenue Code of 1986, as amended (the “**Internal Revenue Code**”), and regulations thereunder, including the C Rules.

In addition and without limiting the generality of the immediately preceding paragraph, the Lead Manager represents, warrants and agrees that it has not offered, sold or delivered, and agrees that it will not offer, sell or deliver, directly or indirectly, the Bonds within the United States or its possessions in connection with their original issue. Further, in connection with the original issue of the Bonds, the Lead Manager represents and agrees that it has not communicated, and agrees that it will not communicate, directly or indirectly, with a prospective purchaser if either party is within the United States or its possessions or otherwise involve such Lead Manager’s US office in the offer or sale of the Bonds.

United Kingdom

The Lead Manager has further represented, warranted and undertaken that:

- (a) **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 Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Co-obligor; and
- (b) **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 the Bonds in, from or otherwise involving the United Kingdom.

The Czech Republic

No permit for the issue of the Bonds has been obtained from the Securities Commission of the Czech Republic or the Czech National Bank, which took over the competences of the Securities Commission as

of 1 April 2006, as the Czech Act on Amendments to Acts in Connection with the Merger of Financial Market Oversight Authorities, signed by the Czech President on 21 February 2006, took effect (the “**Relevant Czech Financial Markets Authority**”) under the Bonds Act No. 190/2004 Coll. (the “**Bonds Act**”). No notification has been made and no permit has been obtained from the Relevant Czech Financial Markets Authority as necessary for (i) accepting the Bonds for trading on regulated securities markets (as defined in Section 37 of the Czech Capital Markets Act No. 256/2004 Coll., as last amended by Act No. 56/2006 Coll. dated 8 March 2006 (the “**Czech Capital Markets Act**”)) or (ii) public offering of the Bonds pursuant to Section 34 of the Czech Capital Markets Act.

The Lead Manager has agreed that it has not offered or sold, and will not offer or sell, any Bonds in the Czech Republic through a public offering if such a public offering could give rise to an obligation to publish a prospectus under Section 35(1) of the Czech Capital Markets Act. Public offering is conduct whereby an offeror provides a broader circle of persons with sufficient information on the securities being offered and the terms and conditions of the acquisition thereof necessary for the potential investor to make a decision to subscribe for or purchase such securities. For example, the following does not constitute a public offering, which would give rise to an obligation to publish a prospectus under Section 35(1) of the Czech Capital Markets Act: (a) where all offerees are exclusively qualified investors (as defined in Section 34(2)(d) of the Czech Capital Markets Act; (b) where the number of individually addressed offerees does not exceed 100 (not including qualified investors; (c) where each offeree invests at least the CZK equivalent of €50,000; or (d) where the nominal value or price for each security is equal to at least €50,000.

The Lead Manager has represented and agreed with the Issuer and the Co-obligor that it has complied and will comply with all the requirements of the Czech Capital Markets Act and the Bonds Act and has taken and will take no action which would result in the approval of the Relevant Czech Financial Markets Authority being required in respect of the Bonds in accordance with the Czech Capital Markets Act, the Bonds Act and the practice of the Relevant Czech Financial Markets Authority.

Transactions with Credit Suisse Securities (Europe) Limited

Credit Suisse Securities (Europe) Limited or its affiliates may engage in derivative transactions connected with the issue of the Bonds and may engage in transactions with and perform investment banking, financial advisory and other services for the Issuer or one or more of its affiliates in the ordinary course of business.

General

Other than with respect to the listing and admission for trading of the Bonds on the Luxembourg Stock Exchange, no action has been or will be taken in any jurisdiction by the Issuer, the Co-obligor or the Lead Manager that would, or is intended to, permit a public offering of the Bonds, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer, the Co-obligor and the Lead Manager to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Bonds or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Bonds, in all cases at their own expense.

GENERAL INFORMATION

- 1** The Issuer and the Co-obligor have obtained all necessary consents, approvals and authorisations in the Czech Republic in connection with the issue and performance of the Bonds. The creation and issue of the Bonds has been authorised by a resolution of the Board of Directors of the Issuer dated 7 July 2006 and by a resolution of the Supervisory Board of the Issuer dated 7 July 2006 and by a resolution of its shareholders dated 7 July 2006. The acceptance of the co-obligorship of the Bonds has also been authorised by a resolution of the Executive Council of the Co-obligor dated 7 July 2006 and by a resolution of the general meeting of the Co-obligor dated 7 July 2006. The entry into the bond documentation has been approved by the Board of Directors of the Issuer on 7 July 2006 and by its Supervisory Board on 7 July 2006.
- 2** Application has been made to list and trade the Bonds on the regulated market of the Luxembourg Stock Exchange. It is expected that admission to list and trade on the Luxembourg Stock Exchange will be granted on or about the Issue Date. The total expenses related to the admission to trading of the Bonds will be approximately €2,150,000.
- 3** For so long as the Bonds are listed and admitted for trading on the Luxembourg Stock Exchange and the rules of such stock exchange so require, the Issuer and the Co-obligor will maintain a paying agent in Luxembourg.
- 4** Neither the Issuer nor the Co-obligor, nor any of their respective subsidiaries, is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which the Issuer or the Co-obligor, as the case may be, is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer or the Co-obligor.
- 5** Save as disclosed in this Prospectus, there has been no significant change in the financial or trading position of the Issuer or the Co-obligor as of 31 December 2005. There has been no material adverse change in the prospects of the Issuer or the Co-obligor since 31 December 2005.
- 6** For so long as any of the Bonds are outstanding, copies of the following documents may be inspected during normal business hours at the specified office of the Paying Agents:

 - (a) the Articles of Association of the Issuer and the Co-obligor (with an English translation thereof); and
 - (b) the audited consolidated financial statements of the Issuer and the Co-obligor, in respect of the financial years ended 31 December 2004 and 31 December 2005, (with an English translation thereof), in each case together with the audit reports prepared in connection therewith; and
 - (c) the Trust Deed between the Issuer, Co-obligor, Bestsport, the Security Agent and the Trustee.
- 7** The consolidated financial statements of the Issuer and the Co-obligor as at and for the years ended 31 December 2004 and 2005, as applicable, were audited by BDO CS s.r.o. and have each received an unqualified audit opinion.
- 8** The Co-obligor is not required to publish audited annual financial statements in accordance with Czech law.
- 9** The Bonds, the Coupons and the Talons appertaining thereto will bear a legend 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 Section 165(j) and 1287(a) of the Internal Revenue Code”. The sections referred to in such legend provide that a United States person who holds a Bond, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

- 10** The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0258547057 and the common code is 25854705.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

- 11** A purchaser who acquires the Bonds at the issue price of 99.402% on the Issue Date, when the Bonds bear interest at the rate of 9.00 per cent. per annum, would receive a yield of 9.091% for the first twelve month period to 12 July 2007.

This statement is based on the following assumptions:

- (a) there is no upgrade of the Bond's credit rating to B+ or higher by Standard & Poor's or B1 or higher by Moody's, which would decrease the applicable interest rate pursuant to Condition 5(b) (*Adjustment of the Rate of Interest*) during the life of the Bonds;
 - (b) the Bonds are held by the purchaser to maturity; and
 - (c) there is no redemption of the Bonds in accordance with its terms and conditions or other repurchase during the life of the Bonds.
- 12** The Issuer and the Co-obligor each accept responsibility for the information contained in this Prospectus as set out in the statement of responsibility on page 2 hereof.

GLOSSARY

The following explanations are not intended as technical definitions, but to assist the reader to understand certain terms as used in this Prospectus.

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| Instant lotteries | Games in which the winner learns of the winnings immediately after buying the ticket by viewing special areas on the ticket that remain hidden until purchase. SAZKA's instant lotteries include <i>T-Mobile RENTA</i> , <i>Horoskopy III</i> , <i>Pokušení</i> , <i>Kámen-Nůžky-Papír</i> , <i>Šťastná čísla II</i> and <i>Vegas</i> . |
| Linked games | Games which can only be played by also participating in another number lottery game or odds betting games. |
| Lotteries | Number lotteries and instant lotteries. |
| Number lotteries | Games in which there is no preset number of participants or winnings base, which is defined as the number of lottery tickets issued multiplied by the selling price per ticket. The winnings are calculated according to the number of winners and the aggregate amount of stakes (wagers) using a preset ratio, or else they are set as a multiple of the amount of a stake (wager) based on how many of a limited quantity of numbers drawn in a game the participant guesses in accordance with the game plan. SAZKA's number lotteries include <i>Sportka (Lotto 6/49)</i> , <i>Šance (Chance)</i> , with draws held on Wednesdays and Sundays — a betting game linked to <i>Sportka</i> and SAZKA, <i>Šťastných 10 (Lucky 10 — daily Keno)</i> , <i>Keno (daily draw 5 Minute Keno)</i> , <i>Euromilióny</i> , launched in October 2003; and <i>Šance Milion (Chance 1 Million)</i> , a lottery game linked to <i>Šťastných 10</i> . |
| Odds betting | Odds betting encompasses betting games in which (i) the winnings are contingent on guessing the results of sports events and races, where the amount of the winnings depends on the ratio of the number of winners to the overall amount of the stakes (wagers) and the preset winnings ratio and (ii) winnings are contingent on guessing the results of sports events or the results order in sports competitions or races, or on guessing other events of public interest (provided that wagering on these events does not violate ethical principles). The amount of the winnings is directly proportional to the odds at which the wager was accepted and the amount wagered). |
| STARPORT | Central lottery system with interactive video-lottery terminals. The system applies a new gaming platform based on a central server combined with interactive video lottery terminals and terminals for retailers. The system operates online; the central server solution facilitates the introduction of new gaming possibilities, including remote upgrades, random number generation, transaction processing, authentication, registration, and control of game data in real time. Games available on STARPORT include <i>Golden Saddle</i> , <i>Golden Scratch</i> , <i>Golden Track</i> , <i>HI-LO</i> , <i>Infinity</i> , <i>King's Crown Poker</i> , <i>On the House</i> , <i>Penalta</i> , <i>Ruleta</i> , <i>Šťastná linie</i> , <i>Viva Keno</i> , <i>Diamond Dice</i> , <i>Diamond Poker</i> , <i>American Roulette</i> , <i>Maxi</i> , <i>Starport Jackpot</i> (a jackpot which cannot be played as a separate game), <i>Pentagraph</i> , <i>Passion Fruit</i> , <i>Wild Fire</i> , <i>Jackpot Party</i> and <i>Ye Ha Hai</i> . |

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SAZKA, a.s.



**CONSOLIDATED FINANCIAL STATEMENTS
PREPARED UNDER IFRS
AS AT AND FOR THE YEAR ENDED
31 DECEMBER 2005**

April 2006

INDEPENDENT AUDITOR'S REPORT

to the shareholders of SAZKA, a.s.

We have audited the accompanying balance sheet of SAZKA, a.s. as of December 31, 2005 and the related Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give in all material respects a true and fair view of the assets, liabilities, equity and financial position of SAZKA, a.s. as of December 31, 2005 and of the results of its operation and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Prague, 24 April 2006

BDO CS s.r.o.
Certified Accountants and Consultants
Olbrachtova 1980/5
Prague 4

SAZKA, a.s.

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005**

(In thousands CZK)

| | <i>Note</i> | <i>31 Dec 2005</i> | <i>31 Dec 2004</i> |
|--|-------------|------------------------|------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 3.1 | 74,095 | 100,787 |
| Property, plant and equipment | 3.2 | 2,261,354 | 2,153,570 |
| Financial investments | 3.3 | 469,675 | 515,517 |
| Long-term loan provided and other receivables | 3.4 | 7,686,804 | 7,713,527 |
| Long-term unfinished lotteries | 3.5 | 147,617 | 439,565 |
| Long-term prepaid expenses and other accrued assets | 3.6 | 4,594 | 5,119 |
| Total non-current assets | | 10,644,139 | 10,928,085 |
| Current assets | | | |
| Short-term unfinished lotteries | 3.5 | 536,008 | — |
| Inventories | | 10,332 | 13,480 |
| Trade and other receivables | 3.7 | 1,398,284 | 1,549,481 |
| Short-term prepaid expenses and other accrued assets | 3.8 | 19,721 | 64,280 |
| Short-term financial assets | 3.9 | 157,087 | 124,639 |
| Cash and cash equivalents | 3.10 | 326,197 | 226,996 |
| Total current assets | | 2,447,629 | 1,978,876 |
| Total assets | | 13,091,768 | 12,906,961 |
| EQUITY & LIABILITIES | | | |
| Shareholders' equity | | | |
| Share capital | 3.11 | 1,399,600 | 1,399,600 |
| Capital reserves | 3.12 | -168,497 | -166,550 |
| Retained earnings | 3.13 | 1,909,158 | 2,148,895 |
| Equity attributable to equity holders of the parent | | 3,140,261 | 3,381,945 |
| Minority interest | 3.14 | 1,226 | 1,277 |
| Total shareholders' equity | | 3,141,487 | 3,383,222 |
| Non-current liabilities | | | |
| Bond issue | 3.15 | 4,553,655 | 5,087,205 |
| Trade and other payables | 3.16 | 1,128,987 | 1,078,506 |
| Bank borrowings | 3.20 | 55,000 | 110,000 |
| Deferred income related to lotteries | 3.17 | 158,523 | 399,483 |
| Deferred tax liabilities | 3.18 | 14,593 | 11,803 |
| Total non-current liabilities | | 5,910,758 | 6,686,997 |
| Current liabilities | | | |
| Trade and other payables | 3.19 | 1,951,094 | 1,340,075 |
| Bank borrowings | 3.20 | 1,205,000 | 1,120,000 |
| Current portion of bond issue | 3.15 | 320,478 | 293,346 |
| Current tax payable | 3.21 | 19,952 | 43,414 |
| Deferred income related to lotteries | 3.17 | 502,508 | — |
| Other deferred income | | 40,491 | 39,907 |
| Total current liabilities | | 4,039,523 | 2,836,742 |
| Total equity and liabilities | | 13,091,768 | 12,906,961 |

SAZKA, a.s.

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005**

(In thousands CZK)

| | <i>Note</i> | <i>Year ended 31 Dec 2005</i> | <i>Year ended 31 Dec 2004</i> |
|---|-------------|-----------------------------------|-----------------------------------|
| Revenue from lotteries and betting games | 4.1 | 7,368,906 | 6,675,127 |
| Cost of sales | 4.1 | <u>5,963,248</u> | <u>5,480,355</u> |
| Gross profit | | 1,405,658 | 1,194,772 |
| Other operating income | 4.2 | 717,790 | 932,937 |
| Marketing and selling expenses | | 233,842 | 65,621 |
| Administrative expenses | | 204,741 | 262,483 |
| Other operating expenses | 4.2 | <u>277,044</u> | <u>408,377</u> |
| Operating profit (loss) | | 1,407,821 | 1,391,228 |
| Interest income | | 650,461 | 493,405 |
| Interest expense | | 569,838 | 439,931 |
| Finance gains (losses) | 4.3 | <u>123,584</u> | <u>-77,473</u> |
| Profit before tax | | 1,612,028 | 1,367,229 |
| Income tax expense | 4.4 | <u>75,983</u> | <u>61,105</u> |
| Profit for the period | | <u>1,536,045</u> | <u>1,306,124</u> |
| Attributable to: | | | |
| Minority interest | | -21 | -16 |
| Equity holders of the parent | | <u>1,536,066</u> | <u>1,306,140</u> |
| | | <u>1,536,045</u> | <u>1,306,124</u> |

SAZKA, a.s.

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005**

(In thousands CZK)

| | <u>2005</u> | <u>2004</u> |
|--|-------------------|-------------------|
| Cash flow from operating activities | | |
| Profit before tax | 1,586,251 | 1,367,229 |
| <i>Adjustments for:</i> | | |
| Depreciation and amortisation | 170,472 | 182,966 |
| Creation (+) and use (-) of allowances and provisions | -9,239 | 4,413 |
| Investment revenues | -29,053 | — |
| Interest expense (+) less interest revenue (-) | -80,623 | -53,474 |
| Gains and losses on revaluation | -64,886 | 5,715 |
| Loss from sale of non-current assets | 4,567 | -56 |
| <i>Operating cash flows before movements in working capital</i> | <u>1,577,489</u> | <u>1,506,793</u> |
| Decrease (increase) in trade and other receivables | 116,026 | 279,730 |
| Decrease (increase) in inventory | 3,148 | -11,177 |
| Decrease (increase) in unfinished lotteries | -244,060 | -92,692 |
| Decrease (increase) in other assets | 45,084 | 65,284 |
| Decrease (increase) in short-term financial assets | -32,448 | 159,525 |
| Increase (decrease) in trade and other payables | 153,126 | 132,577 |
| Increase (decrease) in deferred income related to lotteries | 261,548 | 67,014 |
| Increase (decrease) in other liabilities | 584 | -7,011 |
| Increase (decrease) in short-term bank loans | 30,000 | -870,000 |
| <i>Cash generated from operations</i> | <u>1,910,497</u> | <u>1,230,043</u> |
| Interest paid | -110,011 | -270,050 |
| Income tax paid | -99,002 | -43,304 |
| Net cash from operating activities | 1,701,484 | 916,689 |
| Cash flow from investing activities | | |
| Purchase of financial investments | -16,000 | — |
| Proceeds from financial investments | 84,310 | 91,004 |
| Purchase of PP&E and intangible assets | -122,781 | -123,910 |
| Proceeds from sale of tangible and intangible long-term assets | 38,037 | 6,156 |
| Interest received | 558,086 | 408,034 |
| Net cash from investing activities | 541,652 | 381,284 |
| Cash flow from financing activities | | |
| Repayments of bond issue | -242,884 | 5,529,213 |
| Interest paid (concerning the bond issue) | -452,559 | -91,474 |
| Increase in other non-current liabilities | 24,385 | 61,032 |
| Decrease (increase) in non-current receivables | 63,905 | -5,806,479 |
| Proceeds paid | -1,536,783 | -1,390,551 |
| Net cash used in financing activities | -2,143,936 | -1,698,259 |
| Net increase in cash and cash equivalents | 99,200 | -400,286 |
| Cash and cash equivalents at beginning of period | 226,996 | 627,282 |
| Cash and cash equivalents at end of period | 326,196 | 227,028 |
| Effect of changes in foreign exchange on cash and cash equivalents | 1 | -32 |
| Cash and cash equivalents at end of period | 326,197 | 226,996 |

SAZKA, a.s.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005**

(In thousands CZK)

| | <i>Capital Reserves</i> | | | <i>Retained Earnings</i> | | |
|---|-------------------------|-----------------------------|-------------------------------|--------------------------|----------------------------|---------------------------|
| | <i>Share capital</i> | <i>Revaluation reserves</i> | <i>Other capital reserves</i> | <i>Legal reserves</i> | <i>Investment reserves</i> | <i>Accumulated profit</i> |
| Balance at 31 December 2004 | <u>1,399,600</u> | <u>-166,565</u> | <u>15</u> | <u>100,602</u> | <u>814,963</u> | <u>1,172,030</u> |
| Effect of error correction (note 2) | | | | | | 61,284 |
| As restated | <u>1,399,600</u> | <u>-166,565</u> | <u>15</u> | <u>100,602</u> | <u>814,963</u> | <u>1,233,314</u> |
| Revaluations of investments | | 23,830 | | | | 25,777 |
| Profit for the period | | | | | | 1,510,289 |
| Proceeds for shareholders | | | | | -379,303 | -610,606 |
| Other proceeds | | | | | -200,000 | -496,852 |
| Board royalties | | | | | | -18,689 |
| Social reserves and bonus reserves (Payables to employees) | | | | | | -96,774 |
| Transfer from accumulated profit to other items of equity | | | | 10,711 | 90,548 | -101,259 |
| Other changes in accumulated profit | | | | | | 660 |
| Balance at 31 December 2005 | <u>1,399,600</u> | <u>-142,735</u> | <u>15</u> | <u>111,313</u> | <u>326,208</u> | <u>1,445,860</u> |

SAZKA, a.s.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004**

(In thousands CZK)

| | <i>Capital Reserves</i> | | | <i>Retained Earnings</i> | | | at t h th |
|---|-------------------------|-------------------------|------------------------------|--------------------------|------------------------|-----------------------|--------------------|
| | Share capital | Revaluation reserves | Other capital reserves | Legal reserves | Investment reserves | Accumulated profit | |
| Balance at 31 December 2003 | <u>1,399,600</u> | <u>-132,522</u> | <u>15</u> | <u>82,331</u> | <u>530,368</u> | <u>1,317,673</u> | <u>3</u> |
| Revaluation of investments | | -34,043 | | | | | |
| Profit for the period | | | | | | 1,306,140 | 1 |
| Proceeds for shareholders | | | | | | -1,010,000 | -1 |
| Other proceeds | | | | | | -41,927 | |
| Board royalties | | | | | | -17,363 | |
| Social reserves and bonus reserves (Payables to employees) | | | | | | -45,201 | |
| Transfer from accumulated profit to other items of equity | | | | 18,271 | 284,595 | -302,866 | |
| Other changes in accumulated profit | | | | | | -34,426 | |
| Balance at 31 December 2004 | <u>1,399,600</u> | <u>-166,565</u> | <u>15</u> | <u>100,602</u> | <u>814,963</u> | <u>1,172,030</u> | <u>3</u> |

SAZKA, a.s.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Prepared for the Year Ended 31 December 2005

1. BUSINESS DESCRIPTION / GENERAL INFORMATION

SAZKA, a.s. (the “Company”) and its all subsidiaries (“SAZKA” or the “Group”) are companies incorporated in the Czech Republic under the Commercial Law. SAZKA is the largest domestic operator of number and instant lotteries, and it also remains one of the largest bookmakers in the Czech Republic. The principal business is the operation of sports betting games and odds betting, number lotteries, and instant lotteries in accordance with Act No. 202/1990 Coll., on Lotteries and Other Similar Games (the “Lotteries Act”).

Furthermore, SAZKA conducts non-lottery business, including recharging mobile telephone credits and selling tickets for various events (e.g. ice-hockey matches, concerts) taking place in the multi-purpose “SAZKA” Arena and in other places.

The primary goal of the Group’s business activities is to provide financial support to Czech sport and physical education from the proceeds of the lotteries and games it runs.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) that include the accounting principles adopted by the International Accounting Standards Board (IASB). SAZKA has applied all IAS and IFRS and related Interpretations (SIC and IFRIC) effective as at 1 January 2005 for the preparation of its consolidated financial statements. At the current year, SAZKA has adopted the following new and revised Standards:

- IAS 1 *Presentation of Financial Statements*
- IAS 2 *Inventory*
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 10 *Events after the Balance Sheet Date*
- IAS 16 *Property, Plant and Equipment*
- IAS 17 *Leases*
- IAS 21 *The Effect of Changes in Foreign Currency Rates*
- IAS 24 *Related Party Disclosures*
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 32 *Financial Instruments: Disclosure and Presentation*
- IAS 36 *Impairment of Assets*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRS 3 *Business Combinations*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

The adoption of these new and revised Standards has not resulted in material changes to the Group’s accounting policies.

The following new and revised Standards and Interpretations are not adopted by SAZKA because the business activities of SAZKA do not require their application:

- IAS 28 *Investments in Associates*
- IAS 31 *Interests in Joint Ventures*
- IAS 33 *Earnings per Share*

IAS 40 *Investment Property*

IFRS 2 *Share-based Payments*

IFRS 4 *Insurance Contracts*

IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretation were in issue but not yet effective for these consolidated financial statements:

IFRS 6 *Exploration for and Evaluation of Mineral Resources*

IFRS 7 *Financial Instruments: Disclosures*

IFRIC 4 *Determining whether an Arrangement contains a Lease*

IFRIC 5 *Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

IFRIC 6 *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*

IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*

IFRIC 8 *Scope of IFRS 2*

IFRIC 9 *Reassessment of Embedded Derivatives*

The management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the consolidated financial statements of SAZKA.

SAZKA has prepared its consolidated financial statements to fulfil a requirement of the contract related to the bond issue that was carried out together with Obcanske sdruzeni ZELENY OSTROV (OSZO) in May 2004. According to the Trust Deed concluded between SAZKA, a.s., Obcanske sdruzeni ZELENY OSTROV, BESTSPORT akciová společnost, J.P. MORGAN CORPORATE TRUSTEE SERVICES LIMITED (“Trustee”) and JPMORGAN CHASE BANK, LONDON BRANCH (“Security Agent”) SAZKA has an obligation to prepare annual consolidated financial statements for the period ended 31 December.

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments, and the going concern principle, unless otherwise stated. The principal accounting policies adopted are set out below.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interest consists of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination.

Companies included in the consolidation

The consolidated financial statements for 2005 include SAZKA, a.s. and 5 Czech subsidiaries. The comparative numbers for 2004 shown in the 2005 financial statements include also 5 Czech subsidiaries.

There are no investments in associated companies.

Note 6 includes a summary of the entities included in the consolidation and the entities not included in the consolidation.

Consolidation method

The consolidated financial statements are prepared under uniform accounting principles. SAZKA as the parent company consolidates all companies that are controlled by it that means, SAZKA controls, directly or indirectly through subsidiaries, more than 50% of their financial and operating policies. In both years 2005 and 2004, the full consolidation method was used. All significant intercompany transactions and balances, and any unrealised gains and losses arising from intercompany transactions were eliminated in the preparation of the consolidated financial statements.

Minority interests in equity of the consolidated Group were calculated and are separately disclosed in this consolidated financial statements.

In 2004 the following significant adjustments were made during consolidation:

Elimination of costs of shares in subsidiaries including valuation differences, elimination of subsidiaries' equity

The purchase cost of subsidiary shares totalling CZK 1,077,745 was eliminated from the investments of the Company. The same amount was eliminated from SAZKA's equity. An adjustment to the purchase cost of these shares amounting to CZK 63,988,000 was reflected in investments and equity.

No goodwill was identified in 2004.

Adjustment of valuation of property transferred to ARKADIA, a.s.

The value of the land and the building transferred to the subsidiary ARKADIA, a.s. were reported at historical purchase costs. The consolidated equity was adjusted by the same amount of CZK 132,572,000.

Elimination of intercompany receivables and liabilities

As at 31 December 2004, receivables and liabilities between related parties amounting to CZK 63,674,000 were eliminated from total receivables and liabilities of the Company.

Elimination of sales within the Group

Revenues from sales between related parties amounting to CZK 232,392,000 were eliminated from total revenues. Corresponding expenditures were eliminated from total expenditures. Settlement of the prior year loss of the KABEL PLUS SPORT a. s. (now KPS MEDIA a.s.) subsidiary amounting to CZK 8,653,000 were eliminated from the year 2004 profit and returned to retained earnings of previous years.

In 2005 the following significant adjustments were made during consolidation:

Elimination of costs of shares in subsidiaries including valuation differences, elimination of subsidiaries' equity.

The purchase cost of subsidiary shares totalling CZK 1,077,745 was eliminated from the investments of the Company. The same amount was eliminated from SAZKA's equity.

No goodwill was identified in 2005.

Adjustment of valuation of property transferred to ARKADIA, a.s.

The value of the land and the building transferred to the subsidiary ARKADIA, a.s. were reported at historical purchase costs. The consolidated equity was adjusted by the same amount of CZK 130,414 thousand.

Elimination of intercompany receivables and liabilities

As at 31 December, 2005, receivables and liabilities between related parties amounting to CZK 63,225 thousand were eliminated from total receivables and liabilities of the Company.

Elimination of sales within the Group

Revenues from sales between related parties amounting to CZK 221,513 thousand were eliminated from total revenues. Corresponding expenditures were eliminated from total expenditures.

Use of Estimates

The preparation of the consolidated financial statements and related disclosures in accordance with IFRS accounting principles requires management to make estimates and assumptions that affect the amounts

reported in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, the accounting for inventory allowances, allowances for doubtful receivables, depreciation and amortisation, accruals, impairment of assets, taxes and contingencies. Although these estimates are based on management's best knowledge of current events and actions, the actual results may ultimately differ from those estimates.

Current and Non-current Distinction

Based on the nature of its operations SAZKA determines the presentation of current and non-current assets and current and non-current liabilities as a separate classification on the face of the balance sheet. Assets and liabilities are presented in the order of their liquidity.

Current assets include cash, cash equivalents and other assets, which are expected to be realized within twelve months after the balance sheet date. Other assets are classified as non-current assets. Liabilities are classified as current liabilities when they are due within twelve months after the balance sheet date. All other liabilities are classified as non-current liabilities.

Foreign Currencies

The consolidated financial statements are presented in the currency of the Czech Republic (CZK), the primary economic environment in which SAZKA operates (its functional currency). Transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, SAZKA enters into swap contracts (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

Intangible Assets

All acquired intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses. Cost includes both the purchase price and all directly attributable costs of bringing the asset to working condition for its intended use.

Each intangible asset is assessed by the Group whether its useful life is finite or indefinite and, if finite, the length of that useful life. An intangible asset shall be regarded by the Group as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives or the agreement terms as follows:

- Patents, trademarks and concessions at least 4 years according to the license agreement
- Software for lotteries and administration 4 years

Internally Generated Intangible Assets – Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's development is recognised if the asset can be identified and it is probable that the asset will generate future economic benefits. Furthermore, all the conditions for development specified in IAS 38 must be met.

Internally-generated intangible assets are amortised over their estimated useful lives, using the straight-line method. Where no internally-generated intangible asset can be recognised, development expenditure

is recognised as an expense in the period in which it is incurred. Development expenditure recognised as an expense in previous annual consolidated financial statements is not recognized as an intangible asset at a later date.

Property, Plant and Equipment

Property, plant and equipment (PP&E) are stated at cost less any accumulated depreciation and any accumulated impairment losses. Cost consists of acquisition cost and all directly attributable costs of bringing the asset to working condition for its intended use.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

- Buildings 30 years
- Hardware equipment 4 years
- Motor vehicles 4 years
- Lottery urns 8 years
- Equipment, machinery and furniture & fittings 4 – 6 years

Repair and maintenance expenses are recognised in the profit or loss of the period in which they are incurred. The purchase costs of significant renewals and improvements of any property, plant and equipment are capitalised when it is probable that a future economic benefit, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

An item of property, plant and equipment with a cost not exceeding CZK 1 thousand is recognised as an expense when it is incurred.

Investment property

Investment property, which is property (land or a building – or part of a building – or both) held to earn rental income and/or for capital appreciation, is recognised and measured under IAS 40. In the current and previous years, SAZKA has not applied IAS 40.

Leases

All lease agreements have been considered in accordance with IAS 17 to determine whether they should be accounted for as a finance or operating lease.

Whenever all the substantial risks and rewards associated with a leased asset are transferred to SAZKA a lease agreement is classified as a finance lease agreement. SAZKA recognizes the subject of the lease as an asset at the beginning of the lease period, measured at the present value of the minimum net future lease payments, i.e. net of the administration costs (e.g. insurance, maintenance and taxes paid by the lessor), or at fair value, if lower. In calculating the present value of the minimum lease payments the discount factor is the interest rate implicit in the lease, if this is practicable to determine. If not, the lessee's incremental borrowing rate is used.

The corresponding liability to the lessor is included in the balance sheet as an obligation under finance lease. Lease payments are apportioned between finance charges (interest expense) and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability (using the effective interest method). Finance charges are charged to profit or loss. All lease agreements that are classified as finance leases by the Group transfer ownership of the asset at the end of the lease period.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease, as follows:

- Hardware and software 3 or 4 years
- Computer equipment 7 years
- TV sets 4 years

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Impairment of Tangible and Intangible Assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of the fair value less selling costs and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost comprises the purchase price and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial Instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when SAZKA becomes a party to the contractual provisions of the instrument.

Trade and Other Receivables

Receivables are measured at initial recognition, and are subsequently measured at amortised cost, using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Furthermore, SAZKA analyses the aging of all outstanding balances presented at each balance sheet date and in accordance with this analysis and also with an assessment of the risks related to specific receivables the allowances for doubtful receivable are recognised.

Cash and Cash Equivalents

Cash comprises cash on hand, current bank accounts and short-term bank deposits denominated in both functional and foreign currency. Cash equivalents represent short-term highly liquid investments with insignificant interest risk and with a maximum maturity of three months from the date of the acquisition of the investment.

Securities

Securities are recognised and derecognised on the trade date where a purchase or sale of an investment is made under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that SAZKA has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in the profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the security's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the security's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the security at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Securities other than held-to-maturity debt securities are classified as either securities held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in the profit or loss for the period. For available-for-sale securities, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity securities classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt securities classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss. Where SAZKA is not able to measure equity securities at fair value because of active market absence, the investments are stated at cost less accumulated impairment losses.

The classification of all investments is re-considered by SAZKA on a regular basis.

Financial Risk Management

In 2004, SAZKA issued long-term corporate bonds with a total nominal amount of EUR 175,000 thousand and with a fixed interest rate coupon of 7.375% p.a. Following this event SAZKA's financial risks have increased. Before the bond issue, SAZKA was primarily exposed to foreign currency risks related to its assets and liabilities denominated in foreign currency, not in its functional currency. After the bond issue, the interest rate risk, liquidity risk and credit risk of SAZKA have all increased. The Group applies an overall risk management program that focuses on the unpredictability of financial markets to eliminate potential adverse effects on the financial situation and performance of the Group. Therefore, SAZKA enters into hedging contracts with carefully selected major financial institutions (the main partner of SAZKA in hedging contracts is Citibank Corporation).

Foreign Currency Risks

Foreign currency risk results from monetary assets and liabilities denominated in foreign currency that must be translated into the functional currency at each balance sheet date and transferred to cash at a future date. The current cash value for SAZKA depends on the foreign exchange rates between the functional currency (CZK) and the foreign currency (e.g. EUR, USD) and on their fluctuation.

At 31 December 2005, SAZKA recognises a deposit that was received from GTECH Corporation Inc., USA in 2003 and is denominated in USD and payables related to bonds issued that are denominated in EUR as the main sources of foreign currency risk. Foreign currency risk related to SAZKA's assets is not material and mainly results from a long-term receivable (Oberthur Gaming Technologies Inc., previously BABN Technologies Inc.) that is denominated in USD and from EUR and USD bank accounts.

Interest Rate Risks

Interest rate risk relates to interest-bearing assets and liabilities. Among liabilities, the main sources of interest rate risk are transactions related to the bond issue. Under the terms and conditions of the bond issue, SAZKA has an obligation to pay interest calculated at a fixed interest rate (7.375% p.a.) on the outstanding balance. Further, SAZKA provided the proceeds from the bond issue as a loan to BESTSPORT akciová společnost. This loan bears a fixed interest rate 9.975% p.a. SAZKA provided another loan to BESTSPORT akciová společnost that bears a variable interest rate derived from 1Y PRIBOR, announced by the Czech National Bank two days before 5 May each year, and increased by a fixed rate of 2.6%.

Liquidity Risks

Liquidity risk results from the existence of the obligation to pay each May and November the principal amount payment and interest payments to bondholders. At 31 December 2005 SAZKA estimates the

future cash payment including principal and interest at a total value of EUR 233,233 thousand (EUR 253,542 thousand at 31 December 2004). Further, SAZKA has an obligation to pay the amount of EUR 29,342 thousand (EUR 32,145 thousand at 31 December 2004) to Credit Suisse First Boston during the periods ending May 2014.

The liquidity risk is substantially influenced by the existence of credit risk.

Credit Risks

SAZKA shows a significant portion of its total balance sheet amount (more than half) as receivables from BESTSPORT akciova spolecnost. All proceeds from the bond issue were provided as a loan and SAZKA also has old loans to this company. BESTSPORT akciova spolecnost has an obligation to pay a principal amount payment and interest payment related to the loan from the bond issue proceeds each May and November, always three days before the payment date for the bonds payable. The maturity date of the remaining loans is deferred until December 2014. However, interest is paid in accordance with the agreed schedule.

The financial situation of SAZKA depends on the financial situation and performance of BESTSPORT akciova spolecnost. A possible default by BESTSPORT akciova spolecnost could have an unfavourable effect on the financial position of SAZKA.

To eliminate foreign currency and interest rate risk SAZKA has entered into hedging contracts as described in the following note. In its hedging programs, the Company employs the use of interest rate and currency swaps, options, caps, forward contracts or a combination thereof depending upon the underlying exposure.

Derivative Financial Instruments and Hedge Accounting

SAZKA's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The use of financial derivatives is governed by SAZKA's policies approved by the board of directors, which provide written principles on the use of financial derivatives.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of fair value are recognised in profit or loss as they arise.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in profit or loss. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in profit or loss in the same period in which the hedged item affects net profit or loss.

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains or losses from re-measuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in profit or loss.

To designate a financial derivative as a hedging instrument and apply hedge accounting the hedging contract has to be highly effective. The hedge effectiveness for derivative contracts has to amount to a value within the range 80% – 125%. This value is calculated as the ratio of changes in the fair value of the hedged item and the hedging instrument.

SAZKA uses various financial derivatives, separately or in combination, to hedge foreign currency and interest rate risks. SAZKA does not use derivative financial instruments for speculative purposes. At 31 December 2005, SAZKA uses hedge programmes as follows:

- a cross currency amortised swap contract to eliminate foreign currency risk resulting from a long-term liability denominated in USD;

- a combination of several various financial derivatives to eliminate both foreign currency and interest rate risk resulting from the bond issue.

1. Long-Term Liability Denominated in USD

Description of hedge and nature of the risk being hedged

In October 2003, SAZKA received USD 20,000 thousand as a deposit from GTECH Corporation, Inc., USA. The deposit granted supports a business co-operation between both companies relating to terminals. SAZKA has to return this deposit during the period between 2006 and 2010 according to the payment schedule (the first payment of USD 8,000 thousand was due on 2 January 2006). To hedge the foreign currency risk SAZKA entered in October 2003 into a swap contract and uses it as an instrument that hedges this deposit and related settlements against changes in the exchange rate CZK/USD. SAZKA has designated this derivative as a hedging instrument in a fair value hedge and applies relevant hedge accounting.

Description of the financial instrument

SAZKA entered into a cross currency swap contract with Citibank, a.s. This contract started on 1 October 2003 and will end on 4 January 2010. The first effective date of swap was 3 October 2003 and the next effective dates are always after a period of 3 months.

Assessment of fair value

The fair value of cross currency swaps is calculated as the present value of estimated future cash flows. SAZKA accepts the fair value of derivatives calculated by Citibank, a.s. SAZKA assumes that Citibank, a.s. uses sophisticated valuation methods.

Effectiveness

The fair value of the cross currency amortised swap contract used as a hedging instrument is measured at 31 December 2005 and amounts to CZK (67,930) thousand. The previous fair value determined at 31 December 2004 was CZK (103,987) thousand. Therefore, SAZKA recognised change in fair value of CZK 36,057 thousand (as a revaluation gain) that represents a decrease of negative fair value of the derivative financial instrument.

At 31 December 2005, SAZKA also shows a change in the fair value of the hedge liability of CZK (44,460) thousand (as a revaluation loss).

SAZKA calculates the hedge effectiveness twice a year and the hedge effectiveness has been always fulfilled. Therefore, SAZKA is entitled to apply hedge accounting. See note 4.4 for more information related to the hedge effectiveness calculation.

2. Bond Issue

See notes 3.16 and 4.4 for more information about hedge accounting for the bond issue.

Bond Issues and Bank Borrowings

Interest-bearing bond issues and bank loans are initially measured at fair value adjusted by the transaction costs that are directly attributable to the issue of the financial liability. Subsequently the financial liabilities are measured at amortised cost, using the effective interest method, except for the hedge accounting applied.

Trade and Other Payables

Payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Contingent liabilities

Contingent liabilities represent the possible obligations that arise from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligations that arise from past events but are not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations; or the amount of the obligations cannot be measured with sufficient reliability.

Retirement Benefit Costs / Pension Plans

SAZKA does not operate either defined contribution retirement benefit schemes or defined benefit retirement benefit schemes. SAZKA makes only regular payments to state-managed retirement benefit schemes. These payments are charged as an expense as they fall due.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. The amount of interest is capitalised in the proportion that could have been avoided if the qualifying asset had not been acquired, constructed or produced.

All other borrowing costs are recognised in the profit or loss of the period in which they are incurred.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it is based on the Czech Accounting Standards and Czech tax legislation. It excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax is presented as a non-current asset or liability in the balance sheet.

SAZKA's business operations are divided into non-taxable and taxable operations. The primary business operations including number lotteries, instant lotteries and betting games are classified as non-taxable operations. The other business operations including recharging GSM cards, selling tickets, leasing of rooms in SAZKA's headquarter building and financial activities are classified as taxable operations.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue from **number lotteries and betting games** is recognised on the accrual basis. The period of these lotteries and betting games is one week, from Monday to Sunday. Revenue includes sales from selling lottery tickets and expired prizes (won but not claimed). Expenses include prizes, legal fees and other costs directly attributable to number lotteries and betting games and other overhead expenses allocated to number lotteries and betting games.

Revenue from **instant lotteries** is recognised specifically. Each lottery is realized under a license that SAZKA has to receive before a relevant lottery can start from the Ministry of Finance of the Czech Republic. The license is valid for a certain time period, e.g. two or three years.

SAZKA applies “Completed-Lottery Accounting” for these instant lotteries. In accordance with this method the profit from instant lotteries is recognised at the end of the license period. Until the end of the license all expenses (i.e. costs of lottery tickets, rental charges of on-line terminals, prizes, legal fees) relating to each lottery which have occurred during the accounting period are included in assets as short-term or long-term unfinished lotteries. Revenue (i.e. sales from selling lottery tickets, expired prizes) relating to each instant lottery is shown in the balance sheet as deferred income related to lotteries. All expenses and revenue relating to individual lotteries affect the net profit for the period when the license expires.

Revenue from **games machines** (activity called Starport or IVT) is recognised on the accrual basis.

Commission from **recharging mobile telephone credits** (GSM cards) is recognised on the accrual basis when the transaction takes place. Under the terms of the agreements between SAZKA and mobile operators, the commission paid to SAZKA equals a fixed determinable amount of on-line sales from selling GSM cards. The billing interval is a week, from Monday to Sunday.

Commission from **selling tickets** is recognised on the accrual basis when the transaction takes place.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

Dividend income from investments is recognised when SAZKA’s rights to receive payment have been established.

Proceeds

According to Act No. 202/1990 Coll., on Lotteries and Other Similar Games, as amended (the “Lotteries Act”) SAZKA has an obligation to distribute at least 20 per cent of the proceeds to the public for social, medical, sport, environmental, cultural or other publicly beneficial purposes (good cause payments). In accordance with the Lottery Act, the proceeds represent the amount to which SAZKA’s betting, lottery and gaming revenue exceeds the amount of paid out prizes, administrative fees, local charges and the cost of state supervision. The proceeds do not equal SAZKA’s net profit for the period.

The proceeds are paid out to both SAZKA’s shareholders who participate in various associations involved in Czech sport and physical education and other sport and cultural associations.

On May 25, 2005, SAZKA approved proceeds totalling CZK 1,480,804 thousand. This amount includes proceeds for 2004 provided to SAZKA’s shareholders (CZK 1,101,501 thousand) and Obcanske sdruzeni ZELENY OSTROV (OSZO) and also extraordinary proceeds for the periods started 1999 and ended 2003 designated for SAZKA’s shareholders (CZK 379,303 thousand) from investment reserves (a separate component of equity).

A detailed analysis of the proceeds approved in 2005 is provided in the following table (in thousands CZK):

| | <i>Proceeds approved in 2005</i> | <i>Advance payments paid in 2004</i> | <i>Proceeds paid in 2005</i> | <i>Balance of proceeds</i> |
|--|--|--|----------------------------------|--------------------------------|
| Czech Physical Education Union | 672,971 | 194,431 | 478,540 | — |
| Czech Sokol Community | 134,054 | 38,730 | 95,324 | — |
| Czech “Sports for All” Association | 55,069 | 15,910 | 39,159 | — |
| Automotive Club of the Czech Republic | 39,596 | 11,440 | 28,156 | — |
| Technical Sports and Activities Association of the Czech Republic | 35,269 | 10,190 | 25,079 | — |
| Czech Olympic Committee | 19,798 | 5,720 | 14,078 | — |
| Czech Shooting Union | 14,304 | 4,133 | 10,171 | — |
| Association of Physical Education Organisations and Sports Clubs of the Czech Republic | 10,118 | 2,923 | 7,195 | — |
| Orel | 8,731 | 2,523 | 6,208 | — |
| Proceeds provided to shareholders | 989,910 | 286,000 | 703,910 | — |
| Proceeds to OSZO (owned by SAZKA's shareholders) | 490,894 | 490,894 | 620,715 | 620,715 |
| Proceeds approved in May 2005 | 1,480,804 | 776,894 | 1,324,625 | 620,715 |

The balance of CZK 620,715 thousand represents advances for the proceeds of 2006 paid to Obcanske sdruzeni ZELENY OSTROV and is shown in short-term receivables (see note 3.7).

Events after the Balance Sheet Date

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves recognised in the financial statements.

In April 2006, SAZKA has decided to substitute the current bond issue with a nominal value of EUR 175,000 thousand, nominal interest rate 7.375%, due in 2014 with a new secured amortising bond issue with a nominal value of EUR 215,000 thousand due in 2021.

Restatement of Balance Sheet as at 31 December 2004

Unfinished lotteries

In 2005, SAZKA found the error in a measurement of unfinished lotteries that are recognized in assets until the relevant instant lottery is finished. The measurement of unfinished lotteries presented as at 31 December 2004 does not include overheads costs. These costs were recognized in profit or loss for the period. However, all costs (direct and indirect) related to unfinished lotteries shall be accrued until the lotteries are finished. Simultaneously, SAZKA recognized income related to these lotteries as deferred. To eliminate this accounting inaccuracy of balance sheet items “Unfinished lotteries” and “Deferred income related to lotteries” SAZKA corrects the error as follows:

- balance of unfinished lotteries and of retained earnings at 31 December 2004 is increased by CZK 61,284 thousand.

The balance of unfinished lotteries presented in consolidated financial statements at 31 December 2004 was CZK 378,281 thousand. The correct value should have been CZK 439,565 thousand.

Minority interests

In, 2005 SAZKA found another immaterial error in calculation of minority interest caused by rounding in previous years. The minority interest in 2004 was decreased by CZK 30 thousand (see Note 3.14).

3. NOTES TO BALANCE SHEET

3.1 Intangible Assets

| <i>Intangible assets (in thousands CZK)</i> | <i>Gross carrying amount at 31 December 2005</i> | <i>Accumulated Amortisation</i> | <i>Net carrying amount at 31 December 2005</i> |
|---|--|-------------------------------------|--|
| Software – lotteries and other activities | 59,264 | 31,772 | 27,492 |
| Software – administration | 197,593 | 173,520 | 24,073 |
| Valuable rights | 34,960 | 17,448 | 17,512 |
| Intangibles in course of development | 5,000 | — | 5,000 |
| Advance payments for intangibles | 18 | — | 18 |
| Total | 296,835 | 222,740 | 74,095 |

| <i>Intangible assets (in thousands CZK)</i> | <i>Gross carrying amount at 31 December 2004</i> | <i>Accumulated Amortisation</i> | <i>Net carrying amount at 31 December 2004</i> |
|---|--|-------------------------------------|--|
| Software – lotteries and other activities | 51,781 | 17,340 | 34,441 |
| Software – administration | 184,230 | 138,347 | 45,883 |
| Valuable rights | 30,655 | 15,210 | 15,445 |
| Intangibles in course of development | 5,000 | — | 5,000 |
| Advance payments for intangibles | 18 | — | 18 |
| Total | 271,684 | 170,897 | 100,787 |

The intangible assets included above have finite useful lives, over which the assets are amortised.

In 2005, the net carrying amount of intangible assets was decreased by CZK 26,692 thousand as follows:

| <i>Intangible assets (in thousands CZK)</i> | <i>Net carrying amount at 31 Dec 2004</i> | <i>Additions</i> | <i>Disposals</i> | <i>Amortisation expense</i> | <i>Net carrying amount at 31 Dec 2005</i> |
|---|---|------------------|------------------|---------------------------------|---|
| Software – lotteries and other activities | 34,449 | 6,716 | 30 | 13,643 | 27,492 |
| Software – administration | 45,875 | 19,554 | 5,394 | 35,962 | 24,073 |
| Valuable rights | 15,445 | 7,666 | — | 5,599 | 17,512 |
| Intangibles in course of development | 5,000 | — | — | — | 5,000 |
| Advance payments for intangibles | 18 | — | — | — | 18 |
| Total | 100,787 | 33,936 | 5,424 | 55,204 | 74,095 |

No impairment losses or impairment reversals were recognised in 2005 and no exceptional write-down of intangible assets was made.

Software – lotteries and betting games

This class of intangible assets includes purchased computer software using for number lotteries, instant lotteries and betting games by SAZKA.

Software – administration

This class of intangible assets includes purchased computer software using for administrative activities. The most significant item is SAP/R3 with a carrying amount of CZK 9,443 thousand at 31 December 2005 (In 2004: CZK 25,948 thousand).

Valuable rights

Valuable rights represent class of intangible assets including primary purchased copyrights and trademarks.

Research and Development

In 2005 and 2004, SAZKA did not realize any research and development activities. Therefore, consolidated income statement is not affected by research and development expenses, and also SAZKA did not recognise any intangible assets arising from development.

3.2 Property, Plant and Equipment (PP&E)

| <i>PP&E (in thousands CZK)</i> | <i>Gross carrying amount at 31 December 2005</i> | <i>Accumulated Depreciation</i> | <i>Net carrying amount at 31 December 2005</i> |
|--|--|---------------------------------|--|
| Land | 1,072,929 | — | 1,072,929 |
| Buildings | 1,133,023 | 209,234 | 923,789 |
| Computers – lotteries and other activities | 17,555 | 15,063 | 2,492 |
| Office equipment – lotteries and other activities | 2,761 | 2,085 | 676 |
| Studio equipment | 141,007 | 117,686 | 23,321 |
| Computers – administration | 236,537 | 212,645 | 23,892 |
| Office and audio visual equipment – administration | 126,462 | 64,333 | 62,129 |
| Audio visual equipment | 14,508 | 7,673 | 6,835 |
| Leased assets under finance leases | 66,748 | 47,927 | 18,821 |
| Motor vehicles | 43,346 | 43,177 | 169 |
| Works of art and collections | 29,481 | — | 29,481 |
| Properties under construction | 93,320 | — | 93,320 |
| Advance payments for tangible assets | 3,500 | — | 3,500 |
| Total | 2,981,177 | 719,823 | 2,261,354 |

| <i>PP&E (in thousands CZK)</i> | <i>Gross carrying amount at 31 December 2004</i> | <i>Accumulated Depreciation</i> | <i>Net carrying amount at 31 December 2004</i> |
|--|--|---------------------------------|--|
| Land | 652,347 | — | 652,347 |
| Buildings | 1,126,010 | 184,863 | 941,147 |
| Computers – lotteries and other activities | 17,555 | 12,034 | 5,521 |
| Office equipment – lotteries and other activities | 2,784 | 1,733 | 1,051 |
| Studio equipment | 171,859 | 117,467 | 54,392 |
| Computers – administration | 186,620 | 154,162 | 32,458 |
| Office and audio visual equipment – administration | 115,914 | 49,284 | 66,630 |
| Audio visual equipment | 53,140 | 43,453 | 9,687 |
| Leased assets under finance leases | 51,669 | 19,657 | 32,012 |
| Motor vehicles | 52,205 | 47,090 | 5,115 |
| Works of art and collections | 27,016 | — | 27,016 |
| Properties under construction | 186,194 | — | 186,194 |
| Advance payments for tangible assets | 140,000 | — | 140,000 |
| Total | 2,783,313 | 629,743 | 2,153,570 |

The main building of the Group having a carrying amount of approximately CZK 730,387 thousand is pledged in connection with the bond issue (see note 5.3).

In 2005, the net carrying amount of tangible assets was increased by CZK 107,784 thousand as follows:

| <i>PP&E (in thousands CZK)</i> | <i>Net carrying amount at 31 Dec 2004</i> | <i>Additions</i> | <i>Disposals</i> | <i>Depreciation expense</i> | <i>Net carrying amount at 31 Dec 2005</i> |
|--|---|------------------|------------------|-----------------------------|---|
| Land | 652,347 | 426,060 | 5,478 | — | 1,072,929 |
| Buildings | 941,147 | 7,012 | — | 24,370 | 923,789 |
| Computers – lotteries and other activities | 5,521 | — | — | 3,029 | 2,492 |
| Office equipment – lotteries and other activities | 1,051 | 3 | 26 | 352 | 676 |
| Studio equipment | 54,392 | 3,146 | 9,862 | 24,355 | 23,321 |
| Computers – administration | 32,458 | 10,918 | 5 | 19,479 | 23,892 |
| Office and audio visual equipment – administration | 66,630 | 16,600 | 5,249 | 15,852 | 62,129 |
| Audio visual equipment | 9,687 | 8,710 | 8,987 | 2,575 | 6,835 |
| Leased assets under finance leases | 32,012 | 11,569 | — | 24,760 | 18,821 |
| Motor vehicles | 5,115 | — | 4,450 | 496 | 169 |
| Works of art and collections | 27,016 | 3,488 | 1,023 | — | 29,481 |
| Properties under construction | 186,194 | 370,790 | 463,664 | — | 93,320 |
| Advance payments for tangible assets | 140,000 | 42,900 | 179,400 | — | 3,500 |
| Total | 2,153,570 | 901,196 | 678,144 | 115,268 | 2,261,354 |

No impairment losses or impairment reversals were recognised in 2005 and no exceptional write-down of PP&E was made.

Land

In 2005, SAZKA purchased land situated under and around the “SAZKA” Arena from Quonex Real, a.s. Therefore, the advance payments granted by SAZKA in previous years and presented at 31 December 2004 were settled.

This class of PP&E includes land situated in area “ZELENY OSTROV”, land on which the Group’s headquarters is situated and land are owned by the subsidiaries ARKADIA, a.s. and Agro Tera, a.s. and the Group intends to use it for several amusement and exhibition projects in a future.

Buildings

This class of PP&E includes following significant buildings:

- the building of the Group’s headquarters recognized as an asset in 1994 with the improvements recognised till 2005. At 31 December 2005, the building is presented at carrying amount of CZK 730,387 thousand resulting from the cost of CZK 912,627 thousand (CZK 991,653 thousand including related buildings and structures) and accumulated depreciation of CZK 182,240 thousand.
- the castle “Rabstejn” purchased in 2000. At 31 December 2005, the carrying amount is CZK 42,597 thousand, net of accumulated depreciation of CZK 6,011 thousand.
- the castle “Nouzov” with the carrying amount of CZK 5,515 thousand (accumulated depreciation is CZK 385 thousand).

Computers – lotteries and other activities

This class of PP&E includes purchased hardware using for number lotteries, instant lotteries, betting games and other business activities (such as recharging GSM cards and selling tickets) by SAZKA.

Office equipment – lotteries and other activities

This class of PP&E includes purchased office equipment using for number lotteries, instant lotteries, betting games and other business activities (such as recharging GSM cards and selling tickets) by SAZKA.

Computers – administration

This class of PP&E includes purchased hardware (PC, servers and related equipment) and assets used by SAZKA for its administrative activities.

Office equipment – administration

Office equipment includes long-term items that SAZKA uses for its administrative activities.

Audio-visual equipment

This class of PP&E includes equipment in a TV studio that was built in the building of the Group's headquarter in 2002 and that is used for the lottery activities.

Works of art and collections

This specific class of PP&E includes art and pictures situated in the building of the Group's headquarters. All items contained in this class are non-depreciable.

Properties under construction

This item includes projects and studies for Entertainment centres in Trutnov and Prague on land owned by Group companies and similar studies.

Advance payments for tangible assets

At 31 December 2004, the balance presented represents the advances granted by SAZKA to Quonex Real, a.s. in connection with the purchase of land situated under and around the "SAZKA" Arena. The advances were granted in 2001. In 2005, the purchase transaction was finished and the advances granted settled.

Fully depreciated PP&E

At 31 December 2005 and 2004, SAZKA presents fully depreciated equipment that is still in use with the gross carrying amount of CZK 192,964 thousand and CZK 114,066 thousand, respectively.

Leased Assets under Finance Leases

In 2005, SAZKA did not enter into any new finance lease agreement as a lessee. Under the terms of the existing lease agreements, the lease subjects are hardware and software and computer equipment, and all leased assets will be transferred to SAZKA at the end of the lease term. Therefore, these leased assets are classified as finance leases.

At 31 December 2005, SAZKA shows net carrying amount and future minimum lease payments related to existing finance lease contracts as follows (in thousands CZK):

| <i>Category of leased assets</i> | <i>Net carrying amount</i> | <i>Future minimum lease payments</i> | <i>Present value of future minimum lease payments</i> | <i>Future financial interest related to leased assets</i> |
|----------------------------------|----------------------------|--------------------------------------|---|---|
| Hardware and Software | 13,357 | 16,802 | 13,873 | 2,929 |
| Computer Equipment | 2,435 | 2,418 | 2,225 | 193 |
| TV sets | 3,029 | 1,236 | 1,207 | 29 |
| Total | 18,821 | 20,456 | 17,305 | 3,151 |

None of the finance lease contracts include any contingent rents, purchase options or restrictions.

3.3 Financial Investments

| <i>Financial investments (in thousands CZK)</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|---|----------------------------|----------------------------|
| Investment in non-consolidated subsidiary | | |
| KOLBY, a.s. | 21,690 | — |
| Non-controlling investments | 269,143 | 256,637 |
| GTECH Czech Republic LLC., USA | 263,058 | 239,276 |
| NADACE SAZKA | 500 | 500 |
| Other equity investments (see note 6) | 5,585 | 16,861 |
| Other long-term financial investments | 178,842 | 258,880 |
| Komerční banka a.s. | 60,000 | 70,000 |
| CALYON BANK CZECH REPUBLIC, a.s. | 55,000 | 55,000 |
| Notes from shareholders | 63,842 | 121,340 |
| Notes from OSZO | — | 12,540 |
| Total | <u>469,675</u> | <u>515,517</u> |

Investment in non-consolidated subsidiary

In August 2005, SAZKA, a.s. acquired a majority holding in KOLBY, a.s. from its subsidiary Agro Tera, a.s. for CZK 5,690 thousand due in cash. This consideration represents the fair value of the purchased shares and was determined by an independent expert opinion. SAZKA paid the purchase price in cash. Furthermore, this purchase was approved by the Trustee because of the requirements arising from the Trust Deed for SAZKA. SAZKA increased the share capital of KOLBY, a.s. by CZK 16,000 thousand in 2005.

KOLBY, a.s. as a subsidiary has not been consolidated because it is immaterial company in consideration with other companies included in consolidated group. The results and net assets of KOLBY, a.s. would not have negative effect and significant effect on financial situation and performance of SAZKA.

At 31 December 2005, the separate financial statements of KOLBY, a.s. prepared in accordance with Czech Accounting Standards present the basic financial information as follows:

- total assets of CZK 46,723 thousand,
- equity of CZK 25,568 thousand,
- revenues of CZK 9,228 thousand,
- total expenses of CZK 12,182 thousand.

See note 6 for more information.

Non-controlling investments

Equity shares in GTECH Czech Republic LLC., USA

In 2001, SAZKA purchased 75% of the units representing the share in equity of GTECH Czech Republic LLC., USA from GTECH Corporation, USA for USD 10,000 thousand (initial payment). GTECH Czech Republic LLC., USA is registered and situated in Delaware, USA, and opened a branch in the Czech Republic in the Group's headquarter building. Under the contract between SAZKA and GTECH Corporation Inc., SAZKA should have purchased the remaining 25% of the equity units of GTECH Czech Republic LLC. on 31 December 2005 for USD 3,000 thousand (final payment). However, an amendment to the contract was signed and under the amendment this purchase was deferred until 2017.

The total purchase price for the 100% shares will be USD 13,000 thousand and this payment has been increased by an amount of development investments during the period of the co-operation between both companies. This investment represents a deposit in GTECH Czech Republic LLC., USA and it intends

to use this money to purchase communication equipment from GTECH Corporation Inc. for SAZKA. In 2005, SAZKA realised no development investments and total investments realized till 31 December 2005 amount to USD 699 thousand and are shown in the following table:

| | <i>in thousand USD</i> | <i>in thousand CZK</i> |
|---------------------------------------|------------------------|------------------------|
| Deposit – 75 % equity units – in 2001 | 10,000 | 377,370 |
| Development investments | 699 | 28,471 |
| Total | 10,699 | 405,841 |

The investment in GTECH Czech Republic LLC., USA is equal to a holding of 75%. However, SAZKA does not have any control and is not entitled to distribute the company's profits or received benefits. The company is controlled by GTECH Corporation Inc., USA and therefore, it is not consolidated.

The equity units of the company GTECH Czech Republic LLC., USA, are denominated in USD and are translated into the functional currency (CZK) at 31 December 2005. During the last four years a great appreciation of the Czech currency has taken place. Therefore, an unrealized foreign currency exchange loss totalling CZK (142,783) thousand has resulted from the revaluation of this investment. For the year 2005, SAZKA shows an unrealized foreign currency exchange gain amounting to CZK 23,782 thousand that increases the equity of SAZKA.

The value of the investment in GTECH Czech Republic LLC., USA, and its development during the reporting periods are shown in the following table:

| <i>Date</i> | <i>Carrying amount (in thousands USD)</i> | <i>Original value (in thousands CZK)</i> | <i>Carrying amount (in thousands CZK)</i> | <i>Totals unrealised foreign currency loss (in thousands CZK)</i> | <i>Foreign currency exchange gain for the period (in thousands CZK)</i> |
|-------------|---|--|---|---|---|
| 31 Dec 2004 | 10,699 | 405,841 | 239,276 | (166,565) | |
| 31 Dec 2005 | 10,699 | 405,841 | 263,058 | (142,783) | 23,782 |

BESTSPORT akciová společnost

SAZKA also holds a non-controlling interest in BESTSPORT akciová společnost that was previously a subsidiary of SAZKA. In 2003, SAZKA sold a 90% share to Občanské sdružení ZELENÝ OSTROV (OSZO) and keeps a remaining interest of 10%. The cost of the interest amounts to CZK 1,363 thousand. However, because of the losses incurred by BESTSPORT akciová společnost, SAZKA reduced the value of the interest in accordance with IAS 39 in 2004 and recognized an impairment loss of CZK 1,363 thousand in 2004.

Other long-term financial investments

| <i>Other long-term financial investments (in thousands CZK)</i> | <i>At 31 Dec 2004</i> | <i>Increase</i> | <i>Decrease</i> | <i>At 31 Dec 2005</i> |
|---|-----------------------|-----------------|-----------------|-----------------------|
| Komerční banka a.s. | 70,000 | 11,119 | 21,119 | 60,000 |
| CALYON BANK CZECH REPUBLIC, a.s. | 55,000 | — | — | 55,000 |
| Bank deposits, total | 125,000 | 11,119 | 21,119 | 115,000 |
| Notes from shareholders | 121,340 | — | 57,498 | 63,842 |
| Notes to OSZO | 12,540 | — | 12,540 | — |
| Notes, total | 133,880 | — | 81,072 | 69,427 |
| Total | 258,880 | 11,119 | 33,659 | 115,000 |

Bank deposits

Bank deposits represent securities for games. SAZKA is obliged to deposit money in these special bank accounts under the “Lotteries Act”. SAZKA uses the deposits for the settlement of instant lotteries at the end of the relevant licence.

Notes from shareholders

Notes to shareholders are held by the subsidiary SPORTLEASE a.s. The notes were issued in 1997 and their maturity dates are in 2007. On 31 December 2005, notes amounting to CZK 57,498 thousand repayable in 2006 were reclassified as short-term financial assets.

Notes from Obcanske sdruzeni ZELENY OSTROV (OSZO)

The notes are presented as short-term financial assets at 31 December 2005 (see note 3.9).

3.4 Long-Term Loan Provided and Other Receivables

Long term loan and other receivables (in thousands CZK)

| | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|-----------------------------------|----------------------------|----------------------------|
| Loan provided to BESTSPORT | 7,009,310 | 7,285,994 |
| Unreceived interest | 161,672 | 66,532 |
| Notes – BESTSPORT | 496,816 | 345,297 |
| OGT Inc. / BABN Technologies Inc. | 17,245 | 15,686 |
| Others | 1,761 | 18 |
| Total | 7,686,804 | 7,713,527 |

Receivables from BESTSPORT akciová společnost

BESTSPORT akciová společnost was a subsidiary of SAZKA and in 2003 SAZKA sold a share of 90% to Obcanske sdruzeni ZELENY OSTROV (OSZO). BESTSPORT akciová společnost arranged the construction of the new multi-purpose “SAZKA” Arena and is the owner of the arena. SAZKA arranged the long-term financing of this construction from bank borrowings and from the bond issue for BESTSPORT akciová společnost. SAZKA also has a guarantee for some liabilities relating to the arena (see note 5).

The business relationship between SAZKA and BESTSPORT akciová společnost started in September 2002 when SAZKA concluded with BESTSPORT akciová společnost the first agreement related to the financing of the SAZKA Arena. In May 2004 SAZKA concluded a new agreement in accordance with the bond issue. On 5 May 2004 the outstanding balance of the loans provided during the previous period between September 2002 and 5 May 2004 (date of the bond issue) was restructured against a new loan provided from the bond issue.

In May 2004 SAZKA also concluded with BESTSPORT akciová společnost an amendment to the old agreement and increased the balance of the old loan by CZK 180,000 thousand.

The following table describes the structure of the loans provided to BESTSPORT akciová společnost in May 2004:

| <i>Restructuring of loan</i> | <i>(in thousand CZK)</i> |
|---|--------------------------|
| <i>Loans provided under new agreement related to bond issue</i> | |
| Loan from bond issue | 5,656,000 |
| <i>Loans provided under old agreement</i> | |
| Loans | 3,637,000 |
| Unpaid interest | 64,396 |
| Total | 3,701,396 |
| Offset against new loan | -1,888,599 |
| Balance of old loans | 1,812,797 |
| <i>Loans provided under amendment to old agreement</i> | |
| Increase of balance of old loans | 180,000 |
| Total loans provided | 7,648,797 |

In 2005, SAZKA received the payments totalling CZK 246 520 thousand. However, another loan of CZK 21,000 thousands increased the total outstanding balance.

| | |
|--|-------------------------|
| Original amount of loans provided | 7,648,797 |
| Payment in 2004 | –116,283 |
| Outstanding balance of loans provided at 31 December 2004 | <u>7,532,514</u> |
| Long-term outstanding balance | 7,285,994 |
| Short-term outstanding balance | <u>246,520</u> |
| Payments in 2005 | –246,520 |
| Increase of balance of loan in 2005 | 21,000 |
| Outstanding balance of loans provided at 31 December 2005 | <u>7,306,994</u> |
| Long-term outstanding balance | 7,009,310 |
| Short-term outstanding balance | <u>297,684</u> |

At 31 December 2005 SAZKA also shows accrued and unpaid interest totalling CZK 251,138 thousand. The short-term balance is due in May 2006.

| | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|--|----------------------------|----------------------------|
| Unreceived interest – long-term balance | 161,672 | 66,712 |
| Unreceived interest – short-term balance | <u>89,466</u> | <u>87,493</u> |
| Total unpaid interest | <u>251,138</u> | <u>154,205</u> |

1. New loan provided on 5 May 2004

A new loan was provided by SAZKA on May 5, 2004 from funds SAZKA received from the bond issue. SAZKA allowed the companies SKANSKA CZ, a.s. and DAMOVO Ceska republika, s.r.o. to subscribe for bonds with a nominal value of EUR 25,000 thousand, and EUR 20,000 thousand, respectively and SAZKA paid off the receivables of SKANSKA CZ, a.s. and DAMOVO Ceska republika, s.r.o. on behalf of BESTSPORT akciová společnost. The analysis of the new loan is shown in the following table:

| <i>Form of loan provision</i> | <i>(in thousand CZK)</i> |
|--|---------------------------------|
| Bonds subscription – SKANSKA CZ, a.s. | 808,000 |
| Bonds subscription – DAMOVO Ceska republika, s.r.o. | 646,400 |
| Receivable repayment of SKANSKA CZ, a.s. | 1,345,505 |
| Receivable repayment of DAMOVO Ceska republika, s.r.o. | 967,496 |
| Offset of the old loan | <u>1,888,599</u> |
| Total | <u>5,656,000</u> |

This new loan provided by SAZKA to BESTSPORT akciová společnost is related to the timing and the amounts of the bond issue. The loan is repayable over 10 years with 6-monthly payments of capital and interest. The nominal interest rate is 9.975% p.a. and interest is calculated on a 6-monthly basis and is payable either on 2 November or 2 May. The first payment date was on 2 November 2004 and the last payment date is expected to be on 2 May 2014. Interest for a period is calculated on the unpaid balance of the loan reported at the end of the previous period.

| <i>Date</i> | <i>Notional Amount (CZK)</i> | <i>Interest rate (p.a.)</i> | <i>Future expected interest payments (CZK)</i> | <i>Future expected principal payments (CZK)</i> | <i>Total future expected payments (CZK)</i> |
|--------------|------------------------------|-----------------------------|--|---|---|
| 02.05.2006 | 5,293,197,367 | 9.975% | 265,464,875 | 130,236,834 | 395,701,709 |
| 02.11.2006 | 5,162,960,533 | 9.975% | 263,224,938 | 167,447,367 | 430,672,305 |
| 02.05.2007 | 4,995,513,166 | 9.975% | 250,535,393 | 167,447,367 | 417,982,759 |
| 02.11.2007 | 4,828,065,800 | 9.975% | 246,150,888 | 167,447,367 | 413,598,255 |
| 02.05.2008 | 4,660,618,433 | 9.975% | 235,031,104 | 167,447,367 | 402,478,470 |
| 02.11.2008 | 4,493,171,066 | 9.975% | 229,076,838 | 209,309,200 | 438,386,039 |
| 02.05.2009 | 4,283,861,866 | 9.975% | 214,844,597 | 209,309,200 | 424,153,798 |
| 02.11.2009 | 4,074,552,666 | 9.975% | 207,734,277 | 209,309,200 | 417,043,477 |
| 02.05.2010 | 3,865,243,465 | 9.975% | 193,850,012 | 209,309,200 | 403,159,213 |
| 02.11.2010 | 3,655,934,265 | 9.975% | 186,391,715 | 302,335,533 | 488,727,248 |
| 02.05.2011 | 3,353,598,732 | 9.975% | 168,189,963 | 302,335,533 | 470,525,496 |
| 02.11.2011 | 3,051,263,199 | 9.975% | 155,563,569 | 402,803,934 | 558,367,503 |
| 02.05.2012 | 2,648,459,265 | 9.975% | 133,559,594 | 402,803,934 | 536,363,527 |
| 02.11.2012 | 2,245,655,331 | 9.975% | 114,490,994 | 549,785,533 | 664,276,527 |
| 02.05.2013 | 1,695,869,798 | 9.975% | 85,051,403 | 549,785,533 | 634,836,937 |
| 02.11.2013 | 1,146,084,265 | 9.975% | 58,431,196 | 573,042,100 | 631,473,296 |
| 02.05.2014 | 573,042,165 | 9.975% | 28,739,258 | 573,042,165 | 601,781,423 |
| Total | x | x | 3,036,330,615 | 5,293,197,367 | 8,329,527,982 |

The balance of this new loan is shown as follows (in thousands CZK):

| <i>Structure of loan</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|---------------------------------------|----------------------------|----------------------------|
| Long-term balance | 4,995,513 | 5,293,197 |
| Short-term balance | 297,684 | 246,520 |
| Total balance without interest | 5,293,197 | 5,539,717 |
| Unpaid interest payment | 89,466 | 87,493 |
| Total | 5,382,663 | 5,627,210 |

2. Old loan provided before May 5, 2004

Before the bond issue, SAZKA provided BESTSPORT akciová společnost with loans totalling CZK 3,701,396 thousand (including unpaid interest of CZK 64,396 thousand) at 5 May 2004. At this date SAZKA restructured the old loan in accordance with the bond issue. The outstanding balance of the loan was offset against the new loan provided by SAZKA from the proceeds of the bond issue. The amount offset was CZK 1,888,599 thousand. SAZKA showed the remaining amount of CZK 1,812,797 thousand as an outstanding receivable.

In May 2004, SAZKA provided a further loan amounting to CZK 180,000 thousand to BESTSPORT akciová společnost and this amount increased the balance of the old loan. Therefore, the total amount of the old loan was 1,992,797 thousand CZK at 31 December 2004. In February 2005, SAZKA provided another loan of CZK 21,000 thousand with the same terms and conditions as the old loan mentioned above.

According to the agreement concluded between SAZKA and BESTSPORT akciová společnost the loan amounting to CZK 2,013,797 thousand is a long-term loan with a maturity date of 31 December 2014. BESTSPORT akciová společnost shall repay the total loan at the maturity date. This loan is not repayable over the period ended at the maturity date. BESTSPORT akciová společnost shall only pay interest payments during the loan period. However, these interest payments are not due annually but according to the following agreed timing:

| <i>Payment date of interest</i> | <i>Interest payment for the period</i> |
|---------------------------------|--|
| 4 May 2007 | 5 May 2004 – 3 May 2007 |
| 5 May 2010 | 4 May 2007 – 4 May 2010 |
| 3 May 2013 | 5 May 20010 – 2 May 2013 |
| 31 December 2014 | 3 May 2013 – 31 December 2014 |

Under the agreement concluded between SAZKA and BESTSPORT akciová společnost the loan yields interest of CZK 1Y PRIBOR plus a fixed rate of 2.60% for the next nine periods. The effective date for the determination of CZK 1Y PRIBOR is the date two working days before 5 May in each year. For the second period CZK 1Y PRIBOR effective at 3 May 2005 is 1.85% and the applied interest rate is 4.45% p.a. The interest rate applied for the first period (since May 2004 till May 2005) was 5.05%.

The following table shows future expected cash outflows calculated as at 31 December 2005:

| <i>Period ended May</i> | <i>Notional Amount (CZK)</i> | <i>Interest rate (p.a.)</i> | <i>Future expected interest payments (CZK)</i> | <i>Balance of interest payments (liability)</i> | <i>Future expected cash flows (CZK)</i> |
|-----------------------------------|------------------------------|-----------------------------|--|---|---|
| Opening balance at 1 January 2006 | | | | 100,910 | |
| 2006 | 2,013,797 | 4.45% | 89,614 | 190,524 | — |
| 2007 | 2,013,797 | 4.45% | 89,614 | 280,138 | 280,138 |
| 2008 | 2,013,797 | 4.45% | 89,614 | 89,614 | — |
| 2009 | 2,013,797 | 4.45% | 89,614 | 179,228 | — |
| 2010 | 2,013,797 | 4.45% | 89,614 | 268,842 | 268,842 |
| 2011 | 2,013,797 | 4.45% | 89,614 | 89,614 | — |
| 2012 | 2,013,797 | 4.45% | 89,614 | 179,228 | — |
| 2013 | 2,013,797 | 4.45% | 89,614 | 268,842 | 268,842 |
| 2014 | 2,013,797 | 4.45% | 89,614 | 89,614 | 2,103,411 |
| Total | x | x | 907,436 | x | 2,921,233 |

The balance of the old loan is shown as follows (in thousands CZK):

| <i>Structure of loan</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|---|----------------------------|----------------------------|
| Long-term balance | 2,013,797 | 1,992,797 |
| Short-term balance | — | — |
| Total balance without interest | 2,013,797 | 1,992,797 |
| Unreceived interest payment (long-term) | 161,672 | 66,712 |
| Total | 2,175,469 | 2,059,509 |

Notes from BESTSPORT akciová společnost

At 31 December 2005, SAZKA holds three long-term notes issued by BESTSPORT akciová společnost. The first note issued on 2 August 2004 with a nominal value of CZK 401,783 thousand and due on 31 December 2007 represents all transaction costs incurred in connection with the bond issue and BESTSPORT akciová společnost has an obligation to settle all these costs. Simultaneously these costs did not decrease the proceeds from the bond issue. The note yields interest of 3Y CZK IRS plus a fixed rate of 2.60%, i.e. 6.42%.

The second note with a nominal value of CZK 68,678 thousand represents a loan provided by SAZKA on 17 January 2005. The note yields interest of 2Y CZK IRS plus a fixed rate of 2.60%, i.e. 5.50% and is due on 17 January 2007.

The third note with a nominal value of CZK 70,036 thousand represents a loan provided by SAZKA on 3 October 2005. The note yields interest of 4.82% and is due on 3 October 2007.

| <i>In thousands CZK</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|-----------------------------------|----------------------------|----------------------------|
| Nominal value | 540,497 | 401,783 |
| Discount (unrecognized interest) | 43,680 | 65,531 |
| Carrying amount | 496,816 | 345,297 |
| Interest recognized in net income | 25,932 | 9,054 |

Oberthur Gaming Technologies Inc. (OGT)

The trade receivable from Oberthur Gaming Technologies Inc. originated in 1998 under a contract between SAZKA and BABN Technologies Inc. (predecessor of Oberthur Gaming Technologies Inc.). This company is an exclusive supplier of lottery tickets for SAZKA. The receivable was recognized as an asset in 1998 and is due by 31 December 2007. SAZKA is not able to estimate the short-term part of this receivable.

| <i>Amount in thousands CZK</i> | | <i>Amount in thousands USD</i> | |
|--------------------------------|----------------------------|--------------------------------|----------------------------|
| <i>At 31 December 2005</i> | <i>At 31 December 2004</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
| 17,245 | 15,686 | 701 | 701 |

At 31 December 2005 SAZKA revalued the USD amount of this long-term receivable to the current CZK amount. SAZKA used the exchange rate CZK/USD valid at the balance sheet date. A foreign exchange gain amounting to CZK 1,559 thousand was recognized in the income statement.

3.5 Unfinished Lotteries

Unfinished lotteries are measured at the cost directly attributable to a specific instant lottery. These costs include the purchase price of lottery tickets, rent of on-line "GTECH" terminals and lottery overheads. Costs that cannot be attributed to a specific instant lottery (selling costs and general administration costs) are excluded from the cost of unfinished lotteries and these costs are expensed in the period when they are incurred. The analysis of long-term unfinished lotteries in compliance with each lottery is shown in the following table (in thousands CZK):

| <i>Instant Lottery</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> | <i>Date to be expensed</i> |
|-----------------------------------|----------------------------|----------------------------|----------------------------|
| <i>Short-Term</i> | | | |
| T-Mobile Rent | 415,037 | — | 15 September 2006 |
| Lucky Numbers II | 120,971 | — | 31 December 2006 |
| Total short-term lotteries | 536,008 | — | |
| <i>Long-Term</i> | | | |
| T-Mobile Rent | — | 323,801 | 15 September 2006 |
| Lucky Numbers II | — | 75,969 | 31 December 2006 |
| Horoscopes III | 84,968 | 23,515 | 30 November 2007 |
| Rock – Scissors – Paper | 41,374 | 16,280 | 31 March 2007 |
| Temptation | 21,275 | — | 30 November 2007 |
| Total long-term lotteries | 147,617 | 439,565 | x |
| Total instant lotteries | 683,625 | 439,565 | x |

3.6 Long-Term Prepaid Expenses and Other Accrued Assets

At 31 December 2005, the long-term prepaid expenses amounting to CZK 4,594 thousand (in 2004 CZK 5,119 thousand) comprise only long-term rent paid in advance.

3.7 Trade and Other Receivables

| <i>Trade and other receivables (in thousands CZK)</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|---|----------------------------|----------------------------|
| Trade receivables | 328,908 | 343,936 |
| Receivables from shareholders | 25,523 | 286,000 |
| Receivables from OSZO | 620,715 | 490,894 |
| Receivables from BESTSPORT | 396,170 | 334,013 |
| Tax receivable | 1,579 | 45,433 |
| Other receivables | 25,389 | 49,205 |
| Total | 1,398,284 | 1,549,481 |

Trade Receivables

Trade receivables relate mainly to operators, whose task is to arrange games, which means they take deposits for number lotteries and sell instant lotteries. Accounts receivable are recognized when the deposit into the lottery is realized or the lot is sold. In this case, the billing interval is one week, from Monday to Sunday. At the end of the week, SAZKA receives a full summary of the realized deposits and sold lots and gross receivables from operators are recognized. The gross amount is reduced by the amounts of prizes which have been directly paid out by operators to winners during the week.

In 2005 and 2004, SAZKA shows allowances for doubtful receivables at a total value of CZK 12,088 thousand and CZK 20,764 thousand, respectively. SAZKA partly used allowances for doubtful receivables recognised in previous periods.

Receivables from Obcanske sdruzeni ZELENY OSTROV

In 2005, SAZKA paid out advances on future proceeds of CZK 620,715 thousand.

Receivables from BESTSPORT akciová společnost

At 31 December 2005, SAZKA has a short-term receivable from BESTSPORT akciová společnost relating to the loan provided by SAZKA on 5 May 2004 in connection with the bond issue. This balance includes principal payments due in May 2006 and November 2006 totalling CZK 297,684 thousand and also unpaid interest of CZK 89,466 thousand to be paid in May 2006. Trade receivables from BESTSPORT amount to CZK 9,020 thousand.

Tax receivable

Tax receivable represents advances on income tax for 2005 and paid in 2005.

3.8 Short-Term Prepaid Expenses

| <i>Short-term prepaid expenses (in thousands CZK)</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|---|----------------------------|----------------------------|
| Operating leases – GTECH | — | 39,688 |
| Lotteries | 13,946 | 14,927 |
| Other prepaid expenses | 5,775 | 9,665 |
| Total | 19,721 | 64,280 |

Operating Leases – GTECH Corporation Inc., USA

At 31 December 2004, the most significant amount of short-term prepaid expenses was represented by two operating leases between SAZKA and GTECH Corporation Inc., USA. The subject of the first lease is a Central Computer System and related peripheral equipment (on-line terminals). SAZKA paid a commitment fee of USD 1,000 thousand. This amount has been expensed during the first part of the lease term that ends on December 31, 2005. Besides the commitment fee, SAZKA has an obligation to pay lease payments. Lease payments are due with respect to a billing interval (one month) and they shall be equal to four percent. (4 %) of gross on-line sales from all lotteries until December 31, 2005 and equal to two percent. (2 %) of gross on-line sales from all lottery revenue for the remaining part of the lease term. The whole lease term ends on December 31, 2017.

The second operating lease between SAZKA and GTECH Corporation Inc., USA relates to technical services that GTECH Corporation Inc., USA, provides to SAZKA. Lease payments under this lease are based on the same principles as the first lease between the participants. They respect the same billing intervals and they shall be equal to a fixed determinable amount of gross on-line sales from all lotteries.

During the lease term, both SAZKA and GTECH Corporation Inc., USA, have their own responsibilities relating to the lease subjects according to the lease agreement.

This lease was treated as an operating lease because it does not meet the definition of a finance lease. Under the terms of the lease agreements, GTECH Corporation Inc., USA, as the lessor does not transfer substantially all risk and rewards incident to the ownership of assets to SAZKA as the lessee. Also under the lease agreement, the lease does not transfer ownership of the assets to the lessee by the end of the lease term. SAZKA has a purchase option that can be exercised during the lease term according to the conditions of the lease agreement. At the inception of the lease it is not reasonably certain that this option will be exercised by SAZKA. There has been no change in the probability of exercising the purchase option at the date of the preparation of the financial statements.

3.9 Short-Term Financial Assets

Short-term financial assets include private corporate and treasury bonds that are marketable on the stock exchange, short-term notes and marketable equity securities. SAZKA does not intend to hold the marketable bonds until their maturity. However, the Group does not wish to trade these securities in order to achieve short-term profit.

| <i>Short term financial assets (in thousands CZK)</i> | <i>Carrying amount at 31 December 2005</i> | <i>Carrying amount at 31 December 2004</i> |
|---|--|--|
| Marketable bonds | 45,192 | 60,436 |
| Notes from OSZO | 13,014 | — |
| Notes to shareholders | 68,833 | 64,203 |
| Mutual fund shares | 30,048 | — |
| Total | 157,087 | 124,639 |

Marketable Bonds

| <i>Marketable bonds (in thousands CZK)</i> | <i>Fair Value 31 Dec 2004</i> | <i>Fair Value 31 Dec 2005</i> | <i>Gains/Losses on revaluation</i> | <i>Interest</i> | <i>Carrying amount 31 Dec 2005</i> |
|--|-----------------------------------|-----------------------------------|--|-----------------|--|
| Ceska Pojistovna | 19,850 | 19,900 | 50 | 202 | 20,102 |
| Ford Credit Bank | 19,976 | — | — | — | — |
| Severomoravska Energetika | 20,000 | — | — | — | — |
| Ceska sporitelna | — | 25,000 | 25 | 90 | 25,090 |
| Total | 59,826 | 44,900 | 75 | 292 | 45,192 |

| <i>Marketable bonds (in thousands CZK)</i> | <i>Fair Value 31 Dec 2003</i> | <i>Fair Value 31 Dec 2004</i> | <i>Gains/Losses on revaluation</i> | <i>Interest</i> | <i>Carrying amount 31 Dec 2004</i> |
|--|-----------------------------------|-----------------------------------|--|-----------------|--|
| Ceska Pojistovna | 19,500 | 19,850 | 350 | 284 | 20,134 |
| Ford Credit Bank | 19,976 | 19,976 | — | 117 | 20,093 |
| Severomoravska Energetika | 19,980 | 20,000 | 20 | 209 | 20,209 |
| Total | 59,456 | 59,826 | 370 | 610 | 60,436 |

Notes from Obcanske sdruzeni ZELENY OSTROV (OSZO)

On 12 November 2003, Obcanske sdruzeni ZELENY OSTROV issued a promissory note with a nominal value of CZK 12,000 thousand that bears a nominal interest rate 3.9% p.a. The maturity date of the note is on 28 February 2006. At 31 December 2005 and 31 December 2004, SAZKA shows unreceived interest of CZK 1,014 thousand and CZK 540 thousand, respectively. At 31 December 2004 these notes were shown as long-term investments (see note 3.4).

Notes from shareholders

| <i>Notes (in thousands CZK)</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|---------------------------------|----------------------------|----------------------------|
| Nominal value | 64,998 | 59,359 |
| Accrued interest | 3,835 | 4,844 |
| Total | 68,833 | 64,203 |

3.10 Cash and Cash Equivalents

| <i>Cash and cash equivalents (in thousand CZK)</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|--|----------------------------|----------------------------|
| Cash | 243,290 | 120,396 |
| Cash on hand | 9,075 | 7,913 |
| Meal tickets | 2,656 | 1,705 |
| Cash transfers | 1 | 2 |
| Bank accounts | 231,558 | 110,776 |
| Cash equivalents | 82,907 | 106,600 |
| Depository notes | 82,907 | 106,600 |
| Total | 326,197 | 226,996 |

Bank accounts are denominated in Czech currency and foreign currencies (EUR and USD). The balances of each group of bank accounts are shown in the following table:

| <i>Type of bank account</i> | <i>At 31 December 2005 in units of relevant currency</i> | <i>Exchange rate CZK/XXX</i> | <i>At 31 Dec 2005 in thousands CZK</i> |
|-----------------------------|--|------------------------------|--|
| Bank accounts in CZK | 228,218,803 | 1,000 | 228,219 |
| Bank accounts in EUR | 105,499 | 29,005 | 3,060 |
| Bank accounts in USD | 11,367 | 24,588 | 279 |
| Total | x | x | 231,558 |

At 31 December 2005, the foreign currency accounts are retranslated at the rates prevailing on the balance sheet date and differences are recognised as foreign currency gains or losses in the profit or loss for the period.

The CZK bank account includes restricted cash of CZK 115 600 thousand that is designated for the purchase of land under and around the "SAZKA" Arena. This restriction results from two letters of credit signed between SAZKA and BAWAG Bank CZ a.s. on 13 June 2005.

At 31 December 2005, SAZKA shows the following interest-bearing depository (bank) notes (in thousands CZK).

| <i>Bank depository notes</i> | <i>Carrying amount</i> | <i>Date of issue</i> | <i>Date of maturity</i> | <i>Interest rate p.a.</i> |
|------------------------------|------------------------|----------------------|-------------------------|---------------------------|
| Komerční banka, a.s. | 1,300 | 30 Dec 2005 | 2 Jan 2006 | 1.70% |
| Ceska sporitelna, a.s. | 39,002 | 30 Dec 2005 | 2 Jan 2006 | 1.70% |
| CSOB, a.s. | 15,500 | 30 Dec 2005 | 2 Jan 2006 | 1.80% |
| Komerční banka, a.s. | 6,500 | 30.12.2005 | 2 Jan 2006 | 1,75% |
| Komerční banka, a.s. | 20,605 | 27.12.2005 | 2 Jan 2006 | 1,75% |
| Total | 82,907 | X | x | x |

At 31 December 2004, SAZKA shows the following interest-bearing depository (bank) notes (in thousands CZK):

| <i>Bank depository notes</i> | <i>Carrying amount</i> | <i>Date of issue</i> | <i>Date of maturity</i> | <i>Interest rate p.a.</i> |
|------------------------------|------------------------|----------------------|-------------------------|---------------------------|
| Komerční banka, a.s. | 34,700 | 31 Dec 2004 | 1 Jan 2005 | 2.30% |
| Ceska sporitelna, a.s. | 7,000 | 31 Dec 2004 | 1 Jan 2005 | 2.25% |
| CSOB, a.s. | 27,900 | 31 Dec 2004 | 1 Jan 2005 | 2.22% |
| Komerční banka, a.s. | 37,000 | 31 Dec 2004 | 1 Jan 2005 | 2.30% |
| Total | 106,600 | X | x | x |

Shareholder's Equity

The total amount of the shareholder's equity at December 31, 2005 and 2004 is CZK 3,141,487 thousand and CZK 3,383,222 thousand, respectively. The components of the shareholder's equity are shown below:

3.11 Share Capital

SAZKA's registered capital currently amounts to CZK 1,399,600 thousand and has been fully paid up. At 31 December 2001, the City Court in Prague registered in the Commercial Register the conversion of the existing 139,960 registered shares of SAZKA at a nominal value of CZK 10 thousand to new shares of various nominal values. The conversion took place during 2002.

SAZKA's registered capital comprises 1,394 registered shares at a nominal value of CZK 1,000 thousand, 51 registered shares at a nominal value of CZK 100 thousand and 50 registered shares at a nominal value of CZK 10 thousand.

The **structure of SAZKA's shareholders** with their relevant interests is shown in the table below (in thousands CZK):

| <i>Shareholder</i> | <i>At 31 December 2005</i> | <i>Share</i> |
|---|-----------------------------------|---------------------|
| Czech Physical Education Union (ČSTV) | 951,480 | 67.982% |
| Czech Sokol Community | 189,540 | 13.542% |
| Czech "Sports for All" Association | 77,860 | 5.563% |
| Automotive Club of the Czech Republic | 55,980 | 4.000% |
| Technical Sports and Activities Association of the Czech Republic | 49,870 | 3.563% |
| Czech Olympic Committee | 27,990 | 2.000% |
| Czech Shooting Union | 20,230 | 1.445% |
| Association of Physical Education Organisations and Sports Clubs of the Czech Republic | 14,310 | 1.022% |
| Orel | 12,340 | 0.882% |
| Total | 1,399,600 | 100.000% |

There have been no changes in the structure of SAZKA shareholders in 2005.

3.12 Capital Reserves

| <i>Capital reserves (in thousand CZK)</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|--|-----------------------------------|-----------------------------------|
| Revaluation reserves | -142,735 | -166,565 |
| Other capital reserves | 15 | 15 |
| Total | -142,720 | -166,550 |

Capital Reserves comprise Revaluation Reserves and Other Capital Reserves. Revaluation reserves include unrealized gains and losses that result from revaluation of financial investments and securities and these unrealized gains and losses are recorded directly in equity as a separate component.

The most significant item in revaluation reserves includes the effect of the revaluation of SAZKA's equity share in GTECH Czech Republic LLC., USA, as described in note 3.3. In respect of this investment denominated in USD SAZKA shows an unrealized foreign currency exchange gain of CZK 23,782 thousand that increases SAZKA's equity.

3.13 Retained Earnings

| <i>Retained earnings (in thousand CZK)</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|---|-----------------------------------|-----------------------------------|
| Legal reserves | 111,313 | 100,602 |
| Investment reserves | 326,208 | 814,963 |
| Accumulated loss | -10,441 | -134,094 |
| Profit for the period | 1,554,932 | 1,306,140 |
| Total | 1,982,012 | 2,087,611 |

The legal reserves and the investment reserves are increased regularly every year. The legal reserves are created in accordance with the provisions of the Czech Commercial Code. SAZKA has an obligation to create them in an amount equal to 20% of share capital. However, the Company is able to reach the

required balance successively. It is obliged to increase the balance of these reserves annually by an amount equal to 5% of net income determined under Czech Accounting Standards. SAZKA may only use these reserves to cover possible future losses.

The investment reserves are an appropriated part of retained earnings whose existence results from the internal provisions of SAZKA. In accordance with its statute SAZKA may use them primarily for capital expansion (to purchase long-term assets). In accordance with the decision of the general meeting made in 2005, SAZKA may also use the investment reserves as a source for proceeds from previous years paid to shareholders and Obcanske sdruzeni ZELENY OSTROV (see note 2, part Proceeds).

3.14 Minority Interests

| <i>Minority Interests (in thousands CZK)</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004 (As restated)</i> |
|--|----------------------------|--|
| Share Capital | 1,000 | 1,000 |
| Capital Reserves | 247 | 320 |
| Retained Earnings | <u>-21</u> | <u>-73</u> |
| Total | 1,226 | 1,247 |

3.15 Bond Issue

On 5 May 2004, SAZKA issued long-term corporate bonds denominated in EUR and registered on the Luxembourg stock exchange with the following characteristics:

| | | |
|-----------------------------|---|------------------------|
| Nominal amount of issue: | 175,000 thousand EUR | 5,656,000 thousand CZK |
| Issue price: | 174,675 thousand EUR | 5,645,496 thousand CZK |
| Discount: | 325 thousand EUR | 10,504 thousand CZK |
| CZK/EUR at issue date: | 32,320 | |
| Coupon fixed interest rate: | 7.375% (7Y EUR Swap + 3.5%) | |
| Coupon due date: | 6-monthly at 5 May and 5 November | |
| Effective interest rate: | 7.4111% | |
| Maturity date: | 5 May 2014 | |
| Put option: | Investors have a right to require a settlement of the bond issue on 5 May 2009. | |

All transaction costs incurred in connection with the bond issue were invoiced to BESTSPORT akciová společnost. Therefore, these transaction costs did not decrease the proceeds that SAZKA received from the bond issue.

The amounts and timing of scheduled future cash payments of the principal amount of the bond issue and future cash payments of the coupon payments (nominal interest) are shown in the following table. All amounts are denominated in EUR.

| <i>Date</i> | <i>Total payment</i> | <i>Principal amount payments</i> | <i>Coupon payments</i> | <i>Effective interest</i> | <i>Amortisation of discount</i> | <i>Amortised cost</i> |
|--------------|----------------------|----------------------------------|------------------------|---------------------------|---------------------------------|-----------------------|
| 05.05.2006 | 10,102,347 | 4,029,605 | 6,072,742 | 6,092,622 | 19,880 | 159,499,923 |
| 05.11.2006 | 11,202,423 | 5,180,921 | 6,021,502 | 6,041,720 | 20,218 | 154,339,221 |
| 05.05.2007 | 10,912,138 | 5,180,921 | 5,731,217 | 5,750,918 | 19,701 | 149,178,000 |
| 05.11.2007 | 10,811,839 | 5,180,921 | 5,630,918 | 5,650,734 | 19,817 | 144,016,896 |
| 05.05.2008 | 10,557,464 | 5,180,921 | 5,376,543 | 5,395,940 | 19,397 | 138,855,373 |
| 05.11.2008 | 11,716,485 | 6,476,151 | 5,240,334 | 5,259,722 | 19,388 | 132,398,610 |
| 05.05.2009 | 11,390,910 | 6,476,151 | 4,914,759 | 4,933,377 | 18,618 | 125,941,077 |
| 05.11.2009 | 11,228,255 | 6,476,151 | 4,752,104 | 4,770,540 | 18,436 | 119,483,362 |
| 05.05.2010 | 10,910,640 | 6,476,151 | 4,434,489 | 4,452,135 | 17,646 | 113,024,856 |
| 05.11.2010 | 13,618,315 | 9,354,441 | 4,263,874 | 4,281,284 | 17,410 | 103,687,826 |
| 05.05.2011 | 13,201,934 | 9,354,441 | 3,847,493 | 3,863,569 | 16,076 | 94,349,460 |
| 05.11.2011 | 16,021,646 | 12,462,993 | 3,558,653 | 3,573,876 | 15,223 | 81,901,691 |
| 05.05.2012 | 15,518,286 | 12,462,993 | 3,055,293 | 3,068,644 | 13,351 | 69,452,049 |
| 05.11.2012 | 19,629,773 | 17,010,691 | 2,619,082 | 2,630,784 | 11,702 | 52,453,060 |
| 05.05.2013 | 18,956,317 | 17,010,691 | 1,945,626 | 1,954,482 | 8,857 | 35,451,225 |
| 05.11.2013 | 19,066,928 | 17,730,263 | 1,336,665 | 1,342,862 | 6,197 | 17,727,159 |
| 05.05.2014 | 18,387,701 | 17,730,265 | 657,436 | 660,541 | 3,106 | — |
| Total | 233,233,399 | 163,774,671 | 69,458,728 | 69,723,751 | 265,023 | X |

The following tables provide analysis of the amortised cost in EUR and CZK on the financial situation of SAZKA:

| | <i>in thousands EUR</i> | | <i>in thousands CZK</i> | |
|----------------------------|-------------------------|-----------------------|-------------------------|-----------------------|
| | <i>At 31 Dec 2005</i> | <i>At 31 Dec 2004</i> | <i>At 31 Dec 2005</i> | <i>At 31 Dec 2004</i> |
| Nominal amount of issue | 163,775 | 171,402 | 5,293,197 | 5,539,717 |
| Discount | -271 | -299 | -8,387 | -9,656 |
| Amortised cost | 163,515 | 171,103 | 5,284,810 | 5,530,061 |
| Unpaid interest for period | 1,879 | 2,001 | 54,496 | 60,975 |
| Carrying amount | 165,394 | 173,104 | 5,339,306 | 5,591,036 |
| Long-term balance | 154,339 | 163,509 | 4,988,306 | 5,284,632 |
| Short-term balance | 11,055 | 9,595 | 351,062 | 306,404 |

Change in fair value of the bond issue attributed to hedge of foreign exchange and interest risks (unrealized gain included in profit for the period)

| | | |
|--|---------|---------|
| | 465,174 | 217,166 |
|--|---------|---------|

At 31 December 2005, the long-term and short-term balance of the bond issue including the change in fair value amounts to CZK 4,553,655 thousand and CZK 320,478 thousand, respectively.

In connection with the bond issue SAZKA concluded the following agreement with Credit Suisse First Boston Inc. (CSFB) who was the manager of the bond issue. According to the agreement SAZKA has an obligation to pay CSFB for its services related to the bond issue additional payments under the agreement for ten years. The effective date of the agreement is 5 May 2004 (the bond issue date) and the termination date is 5 May 2014. SAZKA shall calculate a payment for each half-year period and the relevant period ends either 5 May or 5 November. The amount of the payment is calculated on the notional amount that is regarded as the outstanding balance of the bond issue. The existence of this agreement between SAZKA and CSFB depends on the continuation of the bond issue.

The following figures provide analysis of the agreement between SAZKA and CSFB and show the expected future payments that SAZKA shall pay CSFB. All payments are denominated in EUR. For disclosure purposes the payments are retranslated at the foreign exchange rate 29,005 CZK/EUR prevailing at 31 December 2005. The final payments in CZK will always depend on the actual foreign exchange rate CZK/EUR valid at 5 November and 5 May when the payment occurred. SAZKA is exposed to the currency risk of an unfavourable change in the exchange rate CZK/EUR.

The payment for each period is calculated as follows:

$$\text{payment} = \text{notional amount} \times \text{interest rate}$$

$$\text{interest rate} = 3.9\% + \text{spread} - 7.4\%$$

The spread is a floating part of the interest rate and it depends on the average net operating profit of SAZKA in subsequent years. For the first six periods the spread amounts to 6.7975% and the interest rate is 3.2975%. After three years SAZKA can use a spread of 6.25% if its operating profit for each of the three financial years 2004, 2005 and 2006 on average is equal to or greater than 1,700,000 thousand CZK. After six years SAZKA can calculate a spread of 5.75% if its operating profit for each of the three financial years 2007, 2008 and 2009 on average is equal to or greater than CZK 2,000,000 thousand. After eight years SAZKA can use a spread of 4.75% if its operating profit for each of the two financial years 2010 and 2011 on average is equal to or greater than CZK 2,300,000 thousand.

The following table shows the notional amount, interest rate and expected payments in EUR and CZK for each period:

| <i>Date</i> | <i>Notional Amount (EUR)</i> | <i>Interest rate p.a.</i> | <i>Future expected payments (EUR)</i> | <i>Future expected payments (CZK)</i> |
|--------------|------------------------------|---------------------------|---------------------------------------|---------------------------------------|
| 05.05.2006 | 163,774,671 | 3.2975% | 2,678,041 | 77,676,579 |
| 05.11.2006 | 159,745,066 | 3.2975% | 2,655,444 | 77,021,153 |
| 05.05.2007 | 154,564,145 | 3.2975% | 2,527,431 | 73,308,136 |
| 05.11.2007 | 149,383,224 | 3.2975% | 2,483,199 | 72,025,187 |
| 05.05.2008 | 144,202,303 | 3.2975% | 2,371,022 | 68,771,493 |
| 05.11.2008 | 139,021,382 | 3.2975% | 2,310,954 | 67,029,221 |
| 05.05.2009 | 132,545,231 | 3.2975% | 2,167,378 | 62,864,799 |
| 05.11.2009 | 126,069,080 | 3.2975% | 2,095,648 | 60,784,270 |
| 05.05.2010 | 119,592,929 | 3.2975% | 1,955,582 | 56,721,656 |
| 05.11.2010 | 113,116,778 | 2.1575% | 1,230,277 | 35,684,184 |
| 05.05.2011 | 103,762,337 | 2.1575% | 1,110,136 | 32,199,495 |
| 05.11.2011 | 94,407,896 | 2.1575% | 1,026,796 | 29,782,218 |
| 05.05.2012 | 81,944,903 | 2.1575% | 881,559 | 25,569,619 |
| 05.11.2012 | 69,481,910 | 1.2075% | 422,945 | 12,267,520 |
| 05.05.2013 | 52,471,219 | 1.2075% | 314,191 | 9,113,110 |
| 05.11.2013 | 35,460,528 | 1.2075% | 215,853 | 6,260,816 |
| 05.05.2014 | 17,730,265 | 1.2075% | 106,167 | 3,079,374 |
| Total | x | x | 26,552,623 | 770,158,830 |

Future expected payments shown in CZK are translated from payments denominated in EUR using the foreign exchange rate 29,005 CZK/EUR valid at 31 December 2005.

At 31 December 2005, SAZKA has a short-term liability amounting to CZK 24,033 thousand that represents interest for the period from November till December 2005 and that is recognized in the income statement. The liability is due on 5 May 2006.

3.16 Long-Term Trade and Other Payables

| <i>Long-term payables and other payables (in thousands CZK)</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|---|----------------------------|----------------------------|
| Negative fair value of derivatives | 494,863 | 316,524 |
| Sureties from operators | 276,647 | 237,984 |
| Deposit from GTECH Corporation Inc., USA | 295,056 | 447,300 |
| Obligations under finance leases | 3,028 | 16,098 |
| Other payables | 59,393 | 60,580 |
| Total | 1,128,987 | 1,078,506 |

Negative fair value of derivatives

| <i>Derivatives (in thousands CZK)</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|---|----------------------------|----------------------------|
| Fair value of financial derivatives (deposit from GTECH Corp.) | 67,930 | 103,987 |
| Fair value of financial derivatives (the bond issue) | 426,933 | 212,537 |
| Total negative fair value of financial derivatives designated as hedging instruments | 494,863 | 316,524 |

Financial derivatives related to the deposit

The financial derivatives (cross currency swap) designated as the hedging instrument of foreign currency risks attributed to the hedged item (long-term liability) – deposit from GTECH Corporation Inc., USA has a fair value of CZK (67,930) thousand at 31 December 2005. It was determined as the present value of the future cash flow resulting from the repayment of the deposit to GTECH Corporation Inc., USA by SAZKA. The fair value was measured by Citibank, a.s.

At 31 December 2004, the fair value of the hedging instrument was CZK (103,987) thousand. The change in the fair value represents the unrealized gain resulting from the derivatives revaluation of CZK 36,057 thousand and is recognized in the profit or loss for the period which offsets the unrealized loss of CZK (44,460) thousand resulting from the revaluation of the deposit from GTECH Corporation Inc., USA.

Financial derivatives related to the bond issue

The financial derivatives that SAZKA recognized in connection with the bond issue were designated as hedging instruments and SAZKA applied fair value hedge accounting. The construction of the hedging instruments that shall hedge the foreign and interest risks attributed to the bond issue includes several separate financial instruments as follows:

| <i>Derivatives (in thousands CZK)</i> | <i>Fair value at 31 December 2005</i> | <i>Fair value at 31 December 2004</i> |
|---------------------------------------|---------------------------------------|---------------------------------------|
| Interest Rate Swap (IRS) | -167,301 | -147,104 |
| Cross Currency Swap (CCS) | 647,513 | 518,174 |
| Interest Rate Cap | — | -21,296 |
| Put Option | -53,279 | -137,237 |
| Total fair value | 426,933 | 212,537 |

The fair value of the financial instruments classified as hedging instruments was calculated by Citibank, a.s. on 31 December 2005. The change in the total fair value of all financial instruments between 31 December 2005 and 31 December 2004 represents an unrealized gain resulting from the remeasurement that is included in the profit or loss for the period which offsets the unrealized loss resulting from the remeasurement of the bond issue.

To determine the fair value of the bond issue SAZKA calculated the present value of the future cash flows (principal amounts and interest amounts) using the valuation of Citibank, a.s. effective at each balance sheet date (see note 4.3).

Sureties from operators

Sureties represent the Group's liabilities to the operators of terminals. This liability represents deposits which have to be made in favour of SAZKA in order to be able to run its on-line terminals. The amount of each deposit is derived from the average sales realized on the specific on-line terminals. This deposit serves as an insurance against the possible danger of operators of on-line terminals not making transfers to SAZKA. Deposits are reported as an interest bearing long-term liability. However, interest related to these deposits is due in the first part of each year, i.e. it will be paid out or it will be added to the standing amount of the deposit. For this purpose, interest is recognized as a short-term liability.

| <i>Sureties (in thousands CZK)</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|------------------------------------|----------------------------|----------------------------|
| Sureties – long-term | 276,647 | 237,984 |
| Sureties – short-term | 4,791 | 7,043 |
| Total | 281,438 | 245,027 |

Deposit from GTECH Corporation Inc., USA

In October 2003, SAZKA received USD 20,000 thousand (CZK 546,800 thousand translated at the foreign exchange rate valid at the date of the transaction) from GTECH Corporation Inc., USA as a long-term deposit. SAZKA received this deposit under the agreement between both companies relating to technical services. This deposit is repayable according to the payment schedule which starts in 2006 and finishes in 2010.

At 31 December 2005, SAZKA remeasured the fair value of the deposit and the change in fair value attributed to the foreign exchange risk is an unrealized foreign currency loss amounting to CZK (44,460) thousand. It affects the profit or loss for the period.

| <i>Date</i> | <i>Carrying amount in thousands USD</i> | <i>Foreign exchange rate CZK/USD</i> | <i>Carrying amount in thousands CZK</i> | <i>Foreign currency exchange differences (in thousands CZK)</i> |
|-----------------|---|--------------------------------------|---|---|
| At Dec 31, 2004 | 20,000 | 22,365 | 447,300 | 65,780 |
| At Dec 31, 2005 | 20,000 | 24,588 | 491,760 | -44,460 |
| | | Short-term payable | 196,704 | |
| | | Long term payable | 295,056 | |

Obligations under finance leases

Obligations under finance leases include liabilities related to finance lease agreements classified as finance leases (see note 3.2).

Other long-term payables

Liabilities from lottery “T-Mobile Rent”

SAZKA operates the lottery “T-Mobile Rent” in co-operation with GSM operator T-Mobile CR. It is an instant lottery with numbers drawn each week. The liabilities to winners, which arise in accordance with the terms and conditions of the lottery, represent the main part of other long-term payables. Long-term part of liabilities to winners of 1 lottery “T-Mobile Rent” amounts to CZK 57,098 thousand (CZK 51,515 thousand at 31 December 2004).

The current portion of CZK 21 229 thousand is shown within “Other short-term payables”.

Loan from Cesky Leasing, spol. s r.o.

On 26 August 2003, SAZKA concluded a loan agreement with Cesky Leasing, spol. s r.o. In accordance with the terms and conditions of the agreement, Cesky Leasing, spol. s r.o. provided a loan of SEK 5,500 thousand (CZK 19,056 thousand translated at the foreign exchange rate valid at the date of the transaction) to SAZKA. The loan is due under the payment schedule during the period started May 2004 and ended 15 April 2007. The interest that SAZKA is obliged to pay monthly is based on a fixed interest rate of 5.50% p.a.

At 31 December 2005, the current portion of CZK 6,609 thousand is shown within “Other short-term payables”.

The loan is redeemed in CZK and its balance is not influenced by the foreign exchange risk resulting from a change in the foreign exchange rate CZK/SEK.

3.17 Deferred Income related to Lotteries

Deferred income related to lotteries comprise revenues from instant lotteries that were realized during previous periods but in accordance with “Completed-Lottery Accounting” that SAZKA applies for

lotteries with a long-term licence SAZKA shows these revenues as deferred income until the license ends. An analysis of deferred income related to long-term instant lotteries in compliance with each lottery is shown in the following table (in thousands CZK):

| <i>Lotteries</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> | <i>Date to be recognized</i> |
|-----------------------------------|----------------------------|----------------------------|------------------------------|
| <i>Short-Term</i> | | | |
| T-Mobile Rent | 355,618 | — | 15 September 2006 |
| Lucky Numbers II | 146,890 | — | 31 December 2006 |
| Total short-term lotteries | 502,508 | — | X |
| <i>Long-Term</i> | | | |
| T-Mobile Rent | — | 285,780 | 15 September 2006 |
| Lucky Numbers II | — | 88,689 | 31 December 2006 |
| Horoscopes III | 95,723 | 15,014 | 30 November 2007 |
| Rock – Scissors – Paper | 45,004 | 10,000 | 31 March 2007 |
| Temptation | 17,796 | — | 30 November 2007 |
| Total long-term lotteries | 158,523 | 399,483 | x |
| Total instant lotteries | 661,031 | 399,483 | x |

3.18 Deferred Tax

Deferred tax is measured applying the tax rate enacted for the period of the expected realization of the deferred income tax (e.g. 24 %). The significant components of activities that gave rise to the deferred tax assets and liabilities that are recorded in the balance sheet are as follows:

| <i>Deferred tax</i> | <i>At 31 Dec 2005</i> | <i>At 31 Dec 2004</i> |
|--|-----------------------|-----------------------|
| Deferred tax assets: | | |
| Trade and other receivables | 3,136 | 1,286 |
| Deferred tax assets, total | 3,136 | 1,286 |
| Deferred tax liabilities: | | |
| PP&E and intangible assets | -17,725 | -12,903 |
| Trade and other payables | -4 | -186 |
| Deferred tax liabilities, total | -17,729 | -13,089 |
| Net deferred tax liability | -14,593 | -11,803 |

3.19 Short-Term Trade and Other Payables

| <i>Short-term trade and other payables (in thousands CZK)</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|---|----------------------------|----------------------------|
| Accounts payable | 1,358,940 | 1,004,555 |
| Obligations under finance leases | 14,302 | 16,797 |
| Payables to bond holders | 477 | — |
| Deposit from GTECH Corp. | 196,704 | — |
| Payables to CSFB | 24,033 | 26,621 |
| Tax payable | 80,151 | 7,121 |
| Other short-term payables | 276,487 | 284,981 |
| Total | 1,951,094 | 1,340,075 |

Obligations under finance leases

Obligations under finance leases include liabilities related to finance lease agreements classified as finance leases (see note 3.2).

Deposit from GTECH Corporation Inc., USA

This represents the current portion of the long-term deposit described in note 3.16.

Payables to Credit Suisse First Boston Inc. (CSFB)

This liability represents short-term interest payments that are due on 5 May 2006 and 5 November 2006. The payments are denominated in EUR and at 31 December 2005 they amount to EUR 829 thousand.

This amount is translated to CZK using the exchange rate 29,005 CZK/EUR and SAZKA shows a current liability amounting to CZK 24 033 thousand. More information about payables to CSFB is provided in 3.15.

Tax payable

This liability includes payroll tax and VAT payable.

Other short-term payables

Other payables include accrued employee compensation, social reserves and bonus reserves designated for employees, liabilities to social security and health care authorities and various other liabilities.

3.20 Bank Borrowings

| <i>Bank borrowings (in thousands CZK)</i> | <i>At 31 Dec 2005</i> | <i>At 31 Dec 2004</i> | <i>Maximum Limit at 31 Dec 2005</i> | <i>Due Date</i> |
|---|---------------------------|---------------------------|---|-----------------|
| <i>Long-term</i> | | | | |
| Komerčni banka, a.s. (II) | 55,000 | 110,000 | — | 31 October 2007 |
| <i>Short-term</i> | | | | |
| BAWAG Bank CZ, a.s. | 450,000 | 450,000 | 450,000 | 31 August 2006 |
| Komerčni banka, a.s. (I) | 300,000 | 300,000 | 400,000 | 31 October 2006 |
| Komerčni banka, a.s. (II) | 55,000 | 70,000 | — | 31 October 2006 |
| Ceska sporitelna a.s. | 200,000 | 300,000 | 400,000 | 31 May 2006 |
| CSOB, a.s. | — | — | 140,000 | 30 June 2006 |
| Raiffeisenbank a.s. | 200,000 | — | 300,000 | 13 October 2006 |
| Short-term borrowings, total | 1,205,000 | 1,120,000 | x | x |
| Total borrowings | 1,260,000 | 1,230,000 | x | x |

BAWAG Bank CZ a.s.

On 22 April 2004, a contract between SAZKA and BAWAG Bank CZ a.s. was signed. BAWAG Bank CZ a.s. granted a non-obligatory line of credit up to the amount of CZK 450,000 thousand as Money Market Advances. SAZKA is obliged to repay the whole amount of the loan by 31 August 2006. SAZKA issued a promissory note in favour of the lender.

Komerčni banka, a.s.

On 29 October 2004 a rollover bank loan contract (I) was signed between SAZKA and Komerčni banka, a.s. Under the contract, a rollover bank loan was granted to SAZKA by the lender Komerčni banka, a.s. The loan was agreed up to the amount of CZK 300,000 thousand. SAZKA is obliged to repay the whole amount of the loan by 31 October 2006. This contract was signed in order to repay the former rollover bank loan contract which had been signed on 8 August 2000. The loan has been granted on the condition that SAZKA fulfils its commitment of issuing two promissory notes in favour of the lender.

Another rollover bank loan (II) is partly classified as long-term and due by 31 October 2007.

Ceska sporitelna, a.s.

On 26 May 2003, a contract between SAZKA and Ceska sporitelna, a.s. was signed. Under this contract the Group is able to withdraw money in one of two ways – current account and short-term bank loan. The total amount of money that SAZKA could use according to the original contract was CZK 155,000 thousand. On 31 May 2004, the contract was prolonged until 30 November 2004 and the limit of the bank loan that SAZKA can currently use is CZK 300,000 thousand. On 18 November 2004, the contract was prolonged until 30 May 2005. SAZKA was obliged to issue a promissory note in favour of the lender. On 27 May 2005, the maturity date of the loan provided by Ceska sporitelna, a.s. was prolonged until 31 May 2006.

On 28 June 2005, SAZKA concluded another agreement with Ceska sporitelna, a.s. In accordance with this new contract the Company has the right to withdraw short-term borrowings to a total amount of CZK 100,000 thousand. The latest maturity date of all these borrowings is on 31 May 2006.

Ceskoslovenska obchodni banka, a.s. (CSOB, a.s.)

On 29 July 2005, SAZKA signed a contract with Ceskoslovenska obchodni banka, a.s. concerning short-term financing. In accordance with the contract CSOB, a.s. provided a credit line up to the amount of CZK 140,000 thousand to SAZKA and SAZKA has the right to use this limit continuously.

Raiffeisenbank a.s.

On 15 October 2005 SAZKA signed a contract with Raiffeisenbank a.s. Under the terms of the contract SAZKA has the right to withdraw funds as short-term fixed loans or short-term fixed loans "Money Market Line". The total limit of both loans equals CZK 300,000 thousand. SAZKA issued a promissory note in favour of the bank and SAZKA is obliged to repay the whole amount of the loan by 13 October 2006.

3.21 Current Tax Payable

| <i>Tax payable (in thousands CZK)</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|---------------------------------------|----------------------------|----------------------------|
| Current income tax liability | 69,869 | 61,416 |
| Advances paid during the year | <u>-49,917</u> | <u>-18,002</u> |
| Outstanding balance | 19,952 | 43,414 |

4. NOTES TO INCOME STATEMENT

4.1 Revenue, Cost of Sales and Gross Profit — Lotteries and Betting Games

The Group's core business activities include organizing lotteries and betting games. Its main products are number lotteries, instant lotteries and various betting games. In connection with these products, revenue inflow to the company and expenses are recognized at the same time.

A detailed analysis of revenue, cost of sales and gross profit for 2005 and 2004 is shown in the following table (in thousands CZK):

| | <i>Year ended 31 December 2005</i> | | | <i>Year ended 31 December 2004</i> | | |
|--------------------------|------------------------------------|-------------------------|-------------------------|------------------------------------|-------------------------|-------------------------|
| | <i>Revenue</i> | <i>Cost of Sales</i> | <i>Gross Profit</i> | <i>Revenue</i> | <i>Cost of Sales</i> | <i>Gross Profit</i> |
| <i>Number Lotteries</i> | | | | | | |
| Sportka (Lotto 6/49) | 5,050,954 | 3,908,782 | 1,142,172 | 3,827,986 | 2,922,740 | 905,246 |
| Lucky 10 | 1,135,006 | 980,319 | 154,687 | 1,122,483 | 932,206 | 190,277 |
| Chance | 301,871 | 246,364 | 55,507 | 212,249 | 184,879 | 27,370 |
| Keno | 249,716 | 225,303 | 24,413 | 281,911 | 281,012 | 899 |
| One Million Chance | 58,167 | 47,143 | 11,024 | 53,631 | 40,607 | 13,024 |
| EuroMillions | 143,675 | 118,939 | 24,736 | 185,980 | 182,999 | 2,981 |
| <i>Subtotal</i> | <i>6,939,389</i> | <i>5,526,850</i> | <i>1,412,539</i> | <i>5,684,240</i> | <i>4,544,443</i> | <i>1,139,797</i> |
| <i>Sports Betting</i> | | | | | | |
| Sazka | 20,738 | 17,926 | 2,812 | 25,035 | 22,394 | 2,641 |
| Betting choice | 383,258 | 362,191 | 21,067 | 650,477 | 627,385 | 23,092 |
| Betting on winner | 2,686 | 6,753 | -4,067 | 5,881 | 15,060 | -9,179 |
| Score plus | 1,488 | 5,992 | -4504 | 2,880 | 10,628 | -7748 |
| <i>Subtotal</i> | <i>408,170</i> | <i>392,862</i> | <i>15,308</i> | <i>684,273</i> | <i>675,467</i> | <i>8,806</i> |
| <i>Instant Lotteries</i> | | | | | | |
| Horoscops II | — | — | — | 172,459 | 137,184 | 35,275 |
| Casino | — | — | — | 128,945 | 107,408 | 21,537 |
| Fantasy | — | — | — | 1,631 | 7,531 | -5,900 |
| <i>Subtotal</i> | <i>—</i> | <i>—</i> | <i>—</i> | <i>303,035</i> | <i>252,123</i> | <i>50,912</i> |
| <i>Other</i> | | | | | | |
| Starport | 21,347 | 43,536 | -22,189 | 3,579 | 8,322 | -4,743 |
| Total | <u>7,368,906</u> | <u>5,963,248</u> | <u>1,405,658</u> | <u>6,675,127</u> | <u>5,480,355</u> | <u>1,194,772</u> |

In 2004, SAZKA finished three instant lotteries and settled related items — the revenue and expenses that had been shown as "Deferred income related to lotteries" and "Unfinished lotteries" were recognised in the profit for the period.

4.2 Other Operating Income and Expense

In addition to the business activity that is represented by lotteries and betting games SAZKA uses on-line terminals for various other operations. Therefore, other operating income and other operating expenses include revenue and expenses from the rental of assets owned by the Company, rendering various services and mainly commissions from contracts signed with mobile operators (Eurotel, T-Mobile and Oskar/Vodafone) relating to the service of recharging GSM cards and commissions from selling tickets for events taking place in the "SAZKA" Arena.

Recharging GSM cards is a service started by SAZKA in 2002. A detailed analysis is shown below (in thousands CZK):

| | 2005 | | | 2004 | | |
|--------------|----------------|----------------|---------------|----------------|----------------|---------------|
| | Revenue | Cost of sales | Gross profit | Revenue | Cost of sales | Gross profit |
| T-Mobile | 263,673 | 233,692 | 29,981 | 252,553 | 235,072 | 17,481 |
| Eurotel | 190,021 | 166,013 | 24,008 | 192,398 | 170,732 | 21,666 |
| Oskar | 73,145 | 65,125 | 8,020 | 10,066 | 15,919 | -5853 |
| Total | 526,839 | 464,830 | 62,009 | 455,017 | 421,723 | 33,294 |

SAZKA operates as a ticket agent and sells tickets for the various events (e.g. concerts, sports matches) that take place in the "SAZKA" Arena. This business was started at the beginning of 2004 and SAZKA sells tickets through on-line terminals or through a special web site. For 2005 and 2004 SAZKA shows the following information (in thousands CZK):

| | Year ended 31 Dec 2005 | Year ended 31 Dec 2004 |
|---------------------|---------------------------|---------------------------|
| Revenue | 28,304 | 49,216 |
| Cost of sales | 27,037 | 31,609 |
| Gross profit | 1,267 | 17,607 |

4.3 Financial Gains (Losses)

Financial gains and losses include realized gains and losses relating to the sale of securities and other financial instruments and also unrealized foreign currency gains and losses.

The amount of financial gains and losses also includes gains and losses resulting from changes in the fair value of financial derivatives used as hedging instruments and from changes in the fair value of the financial liabilities that are recognised as hedged items between 31 December 2005 and 31 December 2004 as follows:

Financial derivative designated as a hedging instrument of foreign currency risks resulting from the deposit from GTECH Corporation Inc., USA

| Effect of derivatives (in thousands CZK) | At 31 Dec 2005 | At 30 June 2005 | At 31 Dec 2004 |
|---|----------------|-----------------|----------------|
| Fair value of financial liability | 491,760 | 496,720 | 447,300 |
| Fair value of financial derivative | -67,930 | -63,508 | -1,039,87 |
| Change in fair value of financial liability (unrealized gain (+) / loss (-) included in profit or loss for the period) | 4,960 | -49,420 | 76,660 |
| Change in fair value of financial derivative (unrealized gain (+) / loss (-) included in profit or loss for the period) | -4,422 | 40,479 | -75,196 |
| Net effect on profit or loss for the period | | -8,403 | 1,464 |
| Hedge effectiveness | 89,16% | 81,91% | 98,09% |

Combination of financial derivatives designated as a hedging instrument of foreign currency and interest rate risks resulting from the bond issue

At 31 December 2005, the change in fair value of the bond issue and related hedging instrument is determined as follows:

| | <i>At 31 December 2005</i> | <i>At 30 June 2005</i> | <i>At 31 December 2004</i> |
|--|--------------------------------|----------------------------|--------------------------------|
| Present value of principal amounts (thousand EUR) | 149,383 | 152,760 | 152,760 |
| Present value of interest amounts (thousand EUR) | 32,206 | 42,017 | 42,017 |
| Exchange rate CZK/EUR at 2 July 2004 | — | — | 31,835 |
| Exchange rate CZK/EUR at 31 December 2004 | — | 30,465 | 30,465 |
| Exchange rate CZK/EUR at 30 June 2005 | 30,030 | 30,030 | — |
| Exchange rate CZK/EUR at 31 December 2005 | 29,005 | — | — |
| Difference in exchange rate | 1,025 | 0,435 | 1,370 |
| Foreign currency gain (thousand CZK) | 186,129 | 82,076 | 266,844 |
| Interest rate gain (thousand CZK) | -121,880 | -142,078 | -173,136 |
| Total change in fair value of the bond issue | 308,009 | -60,001 | 93,707 |
| Fair value of financial derivatives | -426,933 | -141,278 | -212,537 |
| Change in fair value of financial derivatives | -285,655 | 71,259 | -81,671 |
| Net effect on the profit or loss for the period | 33,612 | | 12,036 |
| Hedge effectiveness | 107.83% | 84.20% | 114.74% |

The fair value of the bond issue (financial liability) increased at 31 December 2005 in comparison to the fair value presented at 31 December 2004. This change in the fair value of the bond issue represents an unrealized loss recognized in the profit and loss account.

To assess the effectiveness of the hedge SAZKA compared the unrealized gain resulting from the change in the fair value of the financial derivatives and the unrealized loss resulting from the change in the fair value of the bond issue. The calculation is described in the table above.

Financial gains (losses) are influenced also by payments resulting from repayments of financial derivatives designated as hedging instruments as follow:

Financial gains (losses) resulting from repayments of financial derivatives

Cross currency swap related to bond issue – interest

Payment made on 5 November 2004

| | | |
|--------------------------------------|----------------|------------------|
| Payment by SAZKA | -166,513 | in thousands CZK |
| Payment by Citibank | <u>203,112</u> | in thousands CZK |
| Effect on net profit of SAZKA | 36,599 | in thousands CZK |

Payment made on 5 May 2005

| | | |
|---------------------|----------|------------------|
| Payment by SAZKA | -174,356 | in thousands CZK |
| Payment by Citibank | 190,530 | in thousands CZK |

Payment made on 5 November 2005

| | | |
|---------------------|----------------|------------------|
| Payment by SAZKA | -149,633 | in thousands CZK |
| Payment by Citibank | <u>181,673</u> | in thousands CZK |

Effect on net profit of SAZKA **48,214** in thousands CZK

Cross currency swap related to bond issue — principal

| | | |
|--------------------------------------|-----------------|------------------|
| Payment made on 5 November 2004 | | |
| Payment by Citibank | 3,597,862 | EUR |
| Payment by Citibank | 116,283 | in thousands CZK |
| Payment by SAZKA | <u>-110,154</u> | in thousands CZK |
| Effect on net profit of SAZKA | 6,129 | in thousands CZK |
| Payment made on 5 May 2005 | | |
| Payment by Citibank | 3,597,862 | EUR |
| Payment by Citibank | 116,283 | in thousands CZK |
| Payment by SAZKA | <u>-108,679</u> | in thousands CZK |
| Effect on net profit of SAZKA | 7,604 | in thousands CZK |
| Payment made on 5 November 2005 | | |
| Payment by Citibank | 4,029,605 | EUR |
| Payment by Citibank | 130,237 | in thousands CZK |
| Payment by SAZKA | <u>-130,069</u> | in thousands CZK |
| Effect on net profit of SAZKA | 168 | in thousands CZK |

4.4 Income Tax Expense

| | <i>Year ended 31 Dec 2005</i> | <i>Year ended 31 Dec 2004</i> |
|--------------------------------|-----------------------------------|-----------------------------------|
| Current tax expense | 74,255 | 64,215 |
| Deferred tax expense (benefit) | <u>1,728</u> | <u>-3,110</u> |
| Income tax expense | 75,983 | 61,105 |

The tax calculation of SAZKA (including SAZKA and all its consolidated subsidiaries) is based on the Czech tax legislation. Current income tax is calculated at 26% (2004: 28%) of the taxable profit for the year.

4.5 Additional Information on the Nature of Expense

SAZKA shows its consolidated income statement with the classification of expenses by function and in accordance with IAS 1 the following information on the classification of expenses by nature is disclosed (in thousands CZK):

| | <i>2005</i> | <i>2004</i> |
|---------------------------------------|-------------|-------------|
| Depreciation and amortisation expense | 170,472 | 182,966 |
| Employee benefit expense | 465,008 | 411,549 |

5. CONTINGENCIES AND COMMITMENTS

5.1 Contingent Liabilities

At 31 December 2005 and 31 December 2004, SAZKA discloses the following contingent liabilities that result from guarantees provided.

Contingent liabilities relating to the construction of the "SAZKA" arena (in thousands CZK):

| <i>Company</i> | <i>Description of contingent liability</i> | <i>At 31 Dec 2005</i> | <i>At 31 Dec 2004</i> |
|--|---|-----------------------|-----------------------|
| DAMOVO Ceska republika, s.r.o. | Guarantee in respect of promissory notes relating to technology | 559,901 | 684,709 |
| Sparkasse KölnBonn | Guarantee of notes for financing of construction of SAZKA Arena | 309,000 | — |
| FITRACO N.V. | Guarantee for payment of rent for the information cube in the SAZKA ARENA | 160,971 | 206,379 |
| Group 4 Falck | Guarantee for supply of security technology | 179,689 | 319,883 |
| Managers and Specialists for construction of SAZKA ARENA | Guarantee for payment | 54,427 | 54,427 |
| Total | | 1,263,988 | 1,265,398 |

Other contingent liabilities (in thousands CZK):

| <i>Company</i> | <i>Description of contingent liability</i> | <i>At 31 Dec 2005</i> | <i>At 31 Dec 2004</i> |
|---------------------------|--|-----------------------|-----------------------|
| Komerční banka, a.s. | Guarantee in respect of loan received by SPORTLEASE a.s. | 110,000 | 180,000 |
| Alcatel e-Business Distr. | Guarantee in respect of the call center | 3,624 | 10,108 |
| Compaq computer, s.r.o. | Guarantee in respect of rent | 2,678 | 3,490 |
| Total | | 116,302 | 193,598 |

5.2 Commitments

Finance Leases

At 31 December 2005 and 31 December 2004, SAZKA shows the following finance lease commitments that have a material impact on its future financial position from the view as at the balance sheet date (in thousands CZK):

| <i>Future minimum lease payments</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|---|----------------------------|----------------------------|
| Not later than one year | 14,873 | 18,541 |
| Later than one year and not later than five years | 3,132 | 16,768 |
| Later than five years | — | — |
| Total | 18,005 | 35,309 |
| <i>Present value of future minimum lease payments</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
| Not later than one year | 14,277 | 16,797 |
| Later than one year and not later than five years | 3,028 | 16,098 |
| Later than five years | — | — |
| Total | 17,305 | 32,895 |

The average lease term is 3 years. For the year ended 31 December 2005 and 2004, the average effective borrowing rate was 6.2%. Interest rates are fixed at the contract date, and thus expose SAZKA to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Operating Leases

In 2005, SAZKA concluded three new operating leases with Deutsche Leasing, spol. s r.o. At 31 December 2005, SAZKA has outstanding commitments under non-cancellable operating leases, which fall due as follows (in thousands CZK):

| <i>Future minimum lease payments</i> | <i>At 31 December 2005</i> |
|---|----------------------------|
| Not later than one year | 17,071 |
| Later than one year and not later than five years | 55,479 |
| Later than five years | — |
| Total | 72,550 |

Minimum lease payments under operating leases recognised as an expense in 2005 is CZK 12,803 thousands.

Operating lease payments represent payable by SAZKA for certain of video-lottery terminals. Leases are negotiated for an average term of five years and rentals are fixed and fall due quarterly.

Contingent Assets

After the merger with DALI REAL, a.s., SAZKA entered into legal proceedings with Mr. Hruby, the former chairman of the board of directors of DALI REAL, a.s., who sold fixed assets belonging to the company and kept proceeds amounting to CZK 10,000 thousand for himself. The court decided that Mr. Hruby should pay the above mentioned amount to SAZKA. So far no payment has been made and therefore the receivable was written off.

SAZKA has sued the tax authority in relation to additional tax payments. This item comprises two parts: income tax amounting to CZK 16,340 thousand and VAT amounting to CZK 55,000 thousand.

SAZKA was engaged in a number of disputes with Quonex Real, a.s., the company from which SAZKA was purchasing the land upon which the SAZKA Arena was constructed. In 2005, SAZKA concluded with Quonex Real, a.s. an agreement of composition and in accordance with the agreement all their disputes were abandoned. At the same time both companies signed a purchase agreement related to the land under and around the SAZKA Arena and SAZKA was on 16 September 2005 registered as the owner.

5.3 Pledged and Restricted Assets

In connection with the bond issue SAZKA pledged its main building PAB SAZKA with a book value of CZK 730,387 thousand. The building is pledged on behalf of the bond holders. At the same time, SAZKA also pledged its 10% equity share in BESTSPORT akciová společnost on behalf of the bond holders. The historical cost of the share was CZK 1,363 thousand. However, the carrying amount is zero because of the impairment loss recognized in profit in 2004.

At 31 December 2005, SAZKA shows CZK 115,600 thousand as restricted cash within "Cash and cash equivalents". This amount represents a letter of credit opened on 15 June 2005 and designated for the purchase of land situated in the area ZELENY OSTROV (land under and around the SAZKA Arena). The letter of credit is valid until 1 March 2006.

6. RELATED PARTIES

The consolidated financial statements prepared for the period ended 31 December 2005 include the accounts of SAZKA, a.s. and its subsidiaries as follow:

| <i>Subsidiary</i> | <i>Registered Headquarters</i> | <i>Proportion of ownership interest</i> |
|--|--------------------------------|---|
| Agro Tera, a.s. | Prague, Czech Republic | 100.00% |
| ARKADIA, a.s. | Trutnov, Czech Republic | 99.76% |
| BUSINESS CENTRE SERVICE a.s | Prague, Czech Republic | 100.00% |
| KABEL PLUS SPORT a.s. (now KPS MEDIA a.s.) | Prague, Czech Republic | 100.00% |
| SPORTLEASE a.s. | Prague, Czech Republic | 100.00% |

The consolidated financial statements prepared for the period ended 31 December 2005 do not include the accounts of the following companies because SAZKA does not control them. Therefore, these investments are presented as long-term financial investments in assets at 31 December 2005:

| <i>Name of the company</i> | <i>Registered Headquarters</i> | <i>Share held by SAZKA (%)</i> | <i>Reason for not consolidating</i> |
|--------------------------------|---------------------------------|--------------------------------|---|
| KOLBY a.s. | Pouzdaný, Czech Republic | directly: 99.848% | immaterial company |
| ZAMECEK s.r.o. | Prague, Czech Republic | indirectly: 100% | immaterial company |
| Ski Pec a.s. | Pec pod Snezkou, Czech Republic | x | passive interest |
| Sportovní areál Harrachov a.s. | Harrachov, Czech Republic | x | passive interest |
| SKIAREAL Spindleruv Mlyn a.s. | Spindleruv Mlýn, Czech Republic | x | passive interest |
| OLYMPIA a.s. | Prague, Czech Republic | x | passive interest |
| GTECH Czech Republic LLC., USA | Deleware, USA | 75% | consolidated by GTECH Corporation Inc., USA |
| BESTSPORT a.s. | Prague, Czech Republic | 10% | passive interest |

At 31 December 2005 and 2004, SAZKA shows the following investments in subsidiaries that have been eliminated in the course of the consolidation (in thousands CZK):

| <i>Investments</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|--|----------------------------|----------------------------|
| BUSINESS CENTRE SERVICE a.s | 51,680 | 51,680 |
| Agro Tera, a.s. | 448,621 | 448,621 |
| ARKADIA, a.s. | 416,689 | 416,689 |
| KABEL PLUS SPORT a.s. (now KPS MEDIA a.s.) | 120,600 | 120,600 |
| SPORTLEASE a.s. | 40,155 | 40,155 |
| KOLBY, a.s. | 21,690 | — |
| Celkem | 1,099,435 | 1,077,745 |

The related parties of SAZKA also include BESTSPORT akciová společnost – a former subsidiary of the Company and Obcanské sdružení ZELENÝ OSTROV (OSZO) – the owner of BESTSPORT akciová společnost that is represented by the shareholders of SAZKA. The following table shows a summary of related party receivables and payables from the view of SAZKA as at 31 December 2005 (in thousands CZK):

| <i>Related Party</i> | <i>At 31 December 2005</i> | | <i>At 31 December 2004</i> | |
|--|----------------------------|-----------------|----------------------------|-----------------|
| | <i>Receivables</i> | <i>Payables</i> | <i>Receivables</i> | <i>Payables</i> |
| KABEL PLUS SPORT a.s. (now KPS MEDIA a.s.) | 477 | 25,523 | 508 | 23,238 |
| BUSINESS CENTRE SERVICE a.s. | 4,467 | 29,106 | 3,625 | 29,432 |
| ARKADIA, a.s. | 189 | — | 176 | 878 |
| Agro Tera, a.s. | 101 | — | 113 | — |
| SPORTLEASE a.s. | 86 | — | 182 | 13 |
| KOLBY, a.s. | 73 | — | — | — |
| Obcanské sdružení ZELENÝ OSTROV | 633,788 | — | 503,434 | — |
| BESTSPORT akciová společnost | 8,080,281 | 42,567 | 8,050,825 | — |
| Total | 8,719,462 | 97,196 | 8,558,863 | 53,561 |

Amounts of remuneration and other benefits of the Group's board and management members (in thousands CZK):

| <i>Type of benefit</i> | <i>Statutory Board</i> | | | <i>Supervisory Board</i> | | |
|------------------------|------------------------|---------------|--------------|--------------------------|--------------|--------------|
| | <i>2005</i> | <i>2004</i> | <i>2003</i> | <i>2005</i> | <i>2004</i> | <i>2003</i> |
| Remuneration paid | 7,930 | 9,922 | 8,411 | 8,459 | 7,441 | 6,489 |
| Insurance | 730 | 749 | 636 | 913 | 749 | 695 |
| Total | 8,660 | 10,671 | 9,047 | 9,372 | 8,190 | 7,184 |
| Other benefits | 3 | 4 | 3 | 3 | 1 | 3 |

On 25 May 2005, the general meeting approved the remuneration of the members of the Board of Directors and the Supervisory Board in the total amount of CZK 16 389 thousand from the profit for 2004.

| <i>Type of benefit</i> | <i>Management</i> | | |
|------------------------|-------------------|---------------|---------------|
| | <i>2005</i> | <i>2004</i> | <i>2003</i> |
| Remuneration paid | 31,118 | 11,583 | 10,222 |
| Insurance | 58 | 49 | 43 |
| Total | 31,176 | 11,632 | 10,265 |
| Other benefits | 14 | 12 | 14 |

Other benefits are represented by a number of cards for official and personal purposes.

7. CORPORATE INFORMATION

Registered Office

SAZKA, a.s.
K Žižkovu 851
190 93 Prague 9
The Czech Republic

Web site

www.sazka.cz

Chief Executive Officer

JUDr. Aleš Hušák

Chief Finance Officer

Ing. Jan Prádl

Telephone

+420 266 128 201

**Občanské sdružení
ZELENÝ OSTROV**

**CONSOLIDATED FINANCIAL STATEMENTS
PREPARED UNDER IFRS
AS AT AND FOR THE YEAR ENDED
31 DECEMBER 2005**

May 2006



BDO CS s. r. o.
Auditorská, účetní a poradenská firma

Olbrachtova 1980/5, 140 00 Praha 4
Česká republika
Tel.: 241 046 111, Fax: 241 046 221
E-mail: bdo@bdo.cz

INDEPENDENT AUDITORS' REPORT

to the members of Občanské sdružení ZELENÝ OSTROV

We have audited the accompanying Balance Sheet of Občanské sdružení ZELENÝ OSTROV as of December 31, 2005 and December 31, 2004 and the related Income Statement, Statement of Changes in Equity and Cash Flow Statement for the years then ended. These financial statements are the responsibility of the association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give in all material respects a true and fair view of the assets, liabilities, equity and financial position of Občanské sdružení ZELENÝ OSTROV as of December 31, 2005 and December 31, 2004 and of the results of its operation and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Prague, 15 May 2006

BDO CS s.r.o.
Certified Accountants and Consultants
Olbrachtova 1980/5
Prague 4

OBČANSKÉ SDRUŽENÍ ZELENÝ OSTROV

**CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2005**

(In thousands CZK)

| | <i>Note</i> | <i>31 Dec 2005</i> | <i>31 Dec 2004</i> |
|--|-------------|-------------------------|-------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 3.1 | 8,299,539 | 8,434,955 |
| Intangible assets | 3.2 | <u>33,778</u> | <u>44,673</u> |
| Total non-current assets | | 8,333,317 | 8,479,628 |
| Current assets | | | |
| Inventories | 3.3 | 2,518 | 2,561 |
| Trade and other receivables | 3.4 | 75,946 | 131,579 |
| Prepaid expenses | | 41,522 | 20,379 |
| Cash and cash equivalents | 3.5 | <u>48,064</u> | <u>50,214</u> |
| Total current assets | | 168,050 | 204,733 |
| Total assets | | <u>8,501,367</u> | <u>8,684,361</u> |
| EQUITY & LIABILITIES | | | |
| Shareholders' equity | | | |
| Accumulated losses attributable to OSZO's owners | 3.6 | (733,880) | (545,950) |
| Non-current liabilities | | | |
| Corporate and bank borrowings | 3.7 | 8,138,713 | 7,967,495 |
| Trade and other payables | 3.8 | 271,562 | 347,720 |
| Provisions | 3.9 | <u>1,205</u> | <u>1,205</u> |
| Total non-current liabilities | | 8,411,480 | 8,316,420 |
| Current liabilities | | | |
| Trade and other payables | 3.8 | 255,379 | 406,057 |
| Current portion of corporate and bank borrowings | 3.7 | 476,396 | 430,370 |
| Provisions | 3.9 | 14,477 | — |
| Deferred income | | <u>77,515</u> | <u>77,464</u> |
| Total current liabilities | | 823,767 | 913,891 |
| Total equity and liabilities | | <u>8,501,367</u> | <u>8,684,361</u> |

OBČANSKÉ SDRUŽENÍ ZELENÝ OSTROV

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005**

(In thousands CZK)

| | <i>Note</i> | <i>Year ended 31 Dec 2005</i> | <i>Year ended 31 Dec 2004</i> |
|---|-------------|-----------------------------------|-----------------------------------|
| Revenue | 3.10 | 331,016 | 271,698 |
| Other income | 3.11 | 827,707 | 493,416 |
| Work performed by entity and capitalized | 3.12 | <u>—</u> | <u>128,519</u> |
| Total income | | 1,158,723 | 893,633 |
| Raw materials and consumables used | 3.13 | (244,068) | (279,944) |
| Employee expenses | 3.14 | (30,718) | (24,403) |
| Depreciation and amortisation expenses | 3.1,3.2 | (283,252) | (199,477) |
| Impairment of property, plant and equipment | 3.1 | — | (118,884) |
| Other expenses | 3.15 | <u>(92,997)</u> | <u>(203,721)</u> |
| Total operating expenses | | (651,035) | (826,429) |
| Interest expenses, net | | (692,551) | (503,630) |
| Other finance costs, net | | <u>(3,067)</u> | <u>(1,110)</u> |
| Loss before tax | | (187,930) | (437,536) |
| Income tax expense | | <u>—</u> | <u>199</u> |
| Loss for the period | | <u>(187,930)</u> | <u>(437,337)</u> |
| Attributable to: | | | |
| Minority interest | | — | (302) |
| OSZO's owners | | <u>(187,930)</u> | <u>(437,035)</u> |
| | | <u>(187,930)</u> | <u>(437,337)</u> |

OBČANSKÉ SDRUŽENÍ ZELENÝ OSTROV**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005**

(In thousands CZK)

| | <i>Retained earnings</i> | <i>Minority interest</i> | <i>Total shareholders' equity</i> |
|------------------------------------|------------------------------|------------------------------|---|
| Balance at 31 December 2003 | (118,287) | 302 | (117,985) |
| Covering the loss of 2003 | 9,372 | | 9,372 |
| Loss for the period | <u>(437,035)</u> | <u>(302)</u> | <u>(437,337)</u> |
| Balance at 31 December 2004 | (545,950) | — | (545,950) |
| Loss for the period | <u>(187,930)</u> | <u>—</u> | <u>(187,930)</u> |
| Balance at 31 December 2005 | (733,880) | — | (733,880) |

OBČANSKÉ SDRUŽENÍ ZELENÝ OSTROV

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2005**

(In thousands CZK)

| | <i>Year ended 31 Dec 2005</i> | <i>Year ended 31 Dec 2004</i> |
|---|-----------------------------------|-----------------------------------|
| Cash flow from operating activities | | |
| Profit before tax | (187,930) | (437,035) |
| <i>Adjustments for:</i> | | |
| Depreciation and amortisation | 283,252 | 199,477 |
| Creation (use) of allowances and provisions | 21,697 | 0 |
| Loss (gain) from sale of non-current assets | (2,221) | 0 |
| Interest expense (+) less interest revenue (-) | 692,551 | 503,630 |
| Gains and losses on revaluation | <u>0</u> | <u>188,884</u> |
| <i>Operating cash flows before movements in working capital</i> | <i>807,349</i> | <i>384,956</i> |
| Decrease (increase) in trade and other receivables | 50,593 | (34,735) |
| Decrease (increase) in inventory | 43 | (2,561) |
| Decrease (increase) in other assets | (21,143) | 68,977 |
| Increase (decrease) in trade and other payables | (150,678) | (678,472) |
| Increase (decrease) in other liabilities | 51 | 0 |
| Interest received | <u>186</u> | <u>219</u> |
| <i>Cash generated from operations</i> | <i>686,401</i> | <i>(261,616)</i> |
| Income tax paid | <u>0</u> | <u>(199)</u> |
| Net cash from operating activities | 686,401 | (261,815) |
| Cash flow from investing activities | | |
| Covering of the loss of BESTSPORT by SAZKA | 0 | 9,372 |
| Purchase of tangible and intangible long-term assets | (136,941) | (3,425,153) |
| Proceeds from sale of tangible and intangible long-term assets | <u>2,221</u> | <u>106,137</u> |
| Net cash from investing activities | (134,720) | (3,309,644) |
| Cash flow from financing activities | | |
| Increase (decrease) in corporate and bank borrowings | 158,080 | 4,834,094 |
| Increase in other long-term liabilities | (76,158) | (917,245) |
| Interest paid | <u>(635,753)</u> | <u>(340,004)</u> |
| Net cash used in financing activities | (553,831) | 3,576,845 |
| Net increase in cash and cash equivalents | <u>(2,150)</u> | <u>5,386</u> |
| Cash and cash equivalents at beginning of period | 50,214 | 44,828 |
| Cash and cash equivalents at end of period | 48,064 | 50,214 |
| Effect of exchange rate changes | | |
| Cash and cash equivalents at end of period | 48,064 | 50,214 |

Občanské sdružení ZELENÝ OSTROV

Notes to the Consolidated Financial Statements Prepared for the Year Ended 31 December 2005

1. BUSINESS DESCRIPTION

Občanské sdružení ZELENÝ OSTROV (“OSZO”) is a Czech non-profit civic association established under the laws of the Czech Republic in May 2003 by the shareholders of SAZKA, a.s. The activities of OSZO include the creation of conditions favourable to the support of sports, physical education, tourism, culture and education, the support of the construction of sports facilities and their efficient usage and the co-ordination of the activities of its members in the Czech Republic.

The primary activity of OSZO is the management of its subsidiary BESTSPORT akciová společnost (“BESTSPORT”) that currently manages the operation of the “SAZKA” Arena, a multi-purpose sports arena. Formerly, BESTSPORT had managed its construction which was finished in April 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis for Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) that include the accounting principles adopted by the International Accounting Standards Board (IASB). OSZO has applied all IASs and IFRSs and related Interpretations (SICs and IFRICs) effective as at 1 January 2005 for the preparation of its consolidated financial statements.

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective for these consolidated financial statements:

IFRS 6 *Exploration for and Evaluation of Mineral Resources*

IFRS 7 *Financial Instruments: Disclosures*

IFRIC 4 *Determining whether an Arrangement contains a Lease*

IFRIC 5 *Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

IFRIC 6 *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*

IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*

IFRIC 8 *Scope of IFRS 2*

IFRIC 9 *Reassessment of Embedded Derivatives*

The management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the consolidated financial statements of OSZO.

OSZO has prepared these consolidated financial statements to fulfil a requirement of the contract related to the bond issue that was carried out together with SAZKA, a.s. in May 2004. According to the Trust Deed concluded between SAZKA, a.s., Občanské sdružení ZELENÝ OSTROV, BESTSPORT akciová společnost, J.P. MORGAN CORPORATE TRUSTEE SERVICES LIMITED (“Trustee”) and JPMORGAN CHASE BANK, LONDON BRANCH (“Security Agent”) OSZO has an obligation to prepare financial statements in accordance with IFRS for the year ended 31 December.

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments, and the going concern principle, unless otherwise stated. The principal accounting policies adopted are set out below.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of Občanské sdružení ZELENÝ OSTROV and its subsidiary BESTSPORT akciová společnost. OSZO owns 90% share in its

subsidiary and has the power to govern the financial and operating policies of its subsidiary so as to obtain benefits from its activities. The remaining 10% share is held by SAZKA, a.s. (“SAZKA”) and is presented as minority interest in the consolidated financial statements.

Minority interest consists of the amount of the interest at the date of the original business combination and the minority’s share of changes in equity since the date of the combination. However, BESTSPORT incurred losses for 2005 and 2004 and portion of these losses applicable to SAZKA exceed the minority interest in BESTSPORT’s equity. SAZKA does not have a binding obligation to cover the losses. Therefore, the excess has been allocated against the interest of OSZO and no minority interest is presented on the consolidated balance sheet as at 31 December 2005 and 2004.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

In 2005 the following significant adjustments were made during consolidation:

The net booking value of equity shares amounting to CZK 10,147 thousand was eliminated from the investments of OSZO. Simultaneously the revaluation of subsidiary shares amounting to CZK (10,147) thousand was eliminated from the equity.

Accruals represented by prepaid expenses and deferred income related to the financial lease of the “SAZKA” Arena amounting to CZK 62,146 thousand were eliminated.

Expense and income related to the financial lease of the “SAZKA” Arena amounting to CZK 980,443 thousand were eliminated.

Expense and income related to the rent of the “SAZKA” Arena amounting to CZK 3,676 thousand were eliminated.

Notes receivable and notes payable including accrued interest in the total amount of CZK 61,452 thousand were eliminated.

In 2004 the following significant adjustments were made during consolidation:

The net booking value of equity shares amounting to CZK 10,147 thousand was eliminated from the investments of OSZO. Simultaneously the revaluation of subsidiary shares amounting to CZK (10,147) thousand was eliminated from the equity.

Accruals represented by prepaid expenses and deferred income related to the financial lease of the “SAZKA” Arena amounting to CZK 221,874 thousand were eliminated.

Expense and income related to the financial lease of the “SAZKA” Arena amounting to CZK 190,642 thousand were eliminated.

Use of Estimates

The preparation of the consolidated financial statements and related disclosures in accordance with IFRS accounting principles requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, the accounting for inventory allowances, allowances for doubtful receivables, depreciation and amortisation, accruals, impairment of assets, taxes and contingencies. Although these estimates are based on management’s best knowledge of current events and actions, the actual results may ultimately differ from those estimates.

Current and Non-Current Distinction

Based on the nature of its operations OSZO determines the presentation of current and non-current assets and current and non-current liabilities as a separate classification on the face of the consolidated balance sheet. Assets and liabilities are presented in the order of their liquidity.

Current assets include cash, cash equivalents and other assets, which are expected to be realized within twelve months after the balance sheet date. Other assets are classified as non-current assets. Liabilities are classified as current liabilities when they are due to be settled within twelve months after the balance sheet date. All other liabilities are classified as non-current liabilities.

Functional Currency and Foreign Currency Translation

The consolidated financial statements are presented in the currency of the Czech Republic (CZK), the primary economic environment in which OSZO operates (its functional currency). Transactions in

currencies other than the OSZO's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Property, Plant and Equipment

Property, plant and equipment (PP&E) are stated at cost less any accumulated depreciation and any accumulated impairment losses. Cost consists of acquisition cost and all directly attributable costs of bringing the asset to working condition for its intended use.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

| | |
|---|---------------|
| • Buildings | 50 years |
| • Machines – playground | 20 – 25 years |
| • Machines – air conditioning | 50 years |
| • Electronic information system | 5 – 15 years |
| • Electronic security systems | 50 years |
| • Machines and equipment for maintenance | 15 – 20 years |
| • Equipment – playground | 20 years |
| • Ticket offices | 15 years |
| • Kitchen equipment | 15 – 25 years |
| • Furniture | 15 years |
| • Ice smoother (leased property under finance lease) | 20 years |
| • Information cube (leased property under finance lease) | 8 years |
| • Security equipment (leased property under finance lease) | 15 years |
| • Other (office equipment, telecommunication devices, backup sources) | 15 – 50 years |

Repair and maintenance expenses are recognised in the profit or loss of the period in which they are incurred. The purchase costs of significant renewals and improvements of any property, plant and equipment are capitalised when it is probable that a future economic benefit, in excess of the originally assessed standard of performance of the existing asset, will flow to OSZO.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Leases

All lease agreements have been considered in accordance with IAS 17 to determine whether they should be accounted for as a finance or operating lease.

Whenever all the substantial risks and rewards associated with a leased asset are transferred to OSZO a lease agreement is classified as a finance lease agreement. OSZO recognizes the subject of the lease as an asset at the beginning of the lease period, measured at the present value of the minimum net future lease payments, i.e. net of the administration costs (e.g. insurance, maintenance and taxes paid by the lessor), or at fair value, if lower. In calculating the present value of the minimum lease payments the discount factor is the interest rate implicit in the lease, if this is practicable to determine. If not, the lessee's incremental borrowing rate is used.

The corresponding liability to the lessor is included in the balance sheet as an obligation under finance lease. Lease payments are apportioned between finance charges (interest expense) and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability (using

the effective interest method). Finance charges are charged to profit or loss. All lease agreements that are classified as finance leases by OSZO transfer ownership of the asset at the end of the lease period.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Investment property

Investment property, which is property (land or a building – or part of a building – or both) held to earn rentals and/or for capital appreciation, is recognised and measured under IAS 40. In the current and previous years, OSZO has not applied IAS 40.

Intangible Assets

All acquired intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses. Cost includes both the purchase price and all directly attributable costs of bringing the asset to working condition for its intended use.

Each intangible asset is assessed by OSZO whether its useful life is finite or indefinite and, if finite, the length of that useful life. An intangible asset shall be regarded by OSZO as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for OSZO.

Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives or the agreement terms as follows:

- Administrative software 4 years
- Technological software 4 – 25 years
- Copyrights and trademarks 4 years

Internally Generated Intangible Assets – Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from OSZO's development is recognised if the asset can be identified and it is probable that the asset will generate future economic benefits. Furthermore, all the conditions for development specified in IAS 38 must be met.

Internally-generated intangible assets are amortised over their estimated useful lives, using the straight-line method. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Development expenditure recognised as an expense in previous annual consolidated financial statements is not recognized as an intangible asset at a later date.

Impairment of Tangible and Intangible Assets

At each balance sheet date, OSZO reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, OSZO estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of the fair value less costs to sell and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost comprises the purchase price and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial Instruments

Financial assets and financial liabilities are recognised on the OSZO's balance sheet when OSZO becomes a party to the contractual provisions of the instrument.

Trade and Other Receivables

Receivables are measured at initial recognition, and are subsequently measured at amortised cost, using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Furthermore, OSZO analyses the aging of all outstanding balances presented at each balance sheet date and in accordance with this analysis and also with an assessment of the risks related to specific receivables the allowances for doubtful receivable are recognised.

Cash and Cash Equivalents

Cash comprises cash on hand, current bank accounts and short-term bank deposits denominated in both functional and foreign currency. Cash equivalents represent short-term highly liquid investments with insignificant interest risk and with a maximum maturity of three months from the date of the acquisition of the investment.

Trade and Other Payables

Payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Provisions

Provisions are recognised when OSZO has a present obligation (legal or contractual) as a result of a past event, and it is probable that OSZO will be required to settle that obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Contingent liabilities

Contingent liabilities represent possible obligations that arise from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of OSZO, or a present obligations that arise from past events but are not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations; or the amount of the obligations cannot be measured with sufficient reliability.

Retirement Benefit Costs / Pension Plans

OSZO does not operate either defined contribution retirement benefit schemes or defined benefit retirement benefit schemes. OSZO makes only regular payments to state-managed retirement benefit schemes. These payments are charged as an expense as they fall due.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. The amount of interest is capitalised in the proportion that could have been avoided if the qualifying asset had not been acquired, constructed or produced.

All other borrowing costs are recognised in the profit or loss of the period in which they are incurred.

Financial Risk Management

The activities of OSZO and its subsidiary BESTSPORT result in various financial risks, mainly in liquidity and interest rate risks. OSZO applies an overall risk management program that focuses on the unpredictability of financial markets to eliminate potential adverse effects on its financial situation and performance. However, OSZO has not entered into any hedging contracts.

Foreign Currency Risks

Foreign currency risk results from monetary assets and liabilities denominated in foreign currency that must be translated into the functional currency at each balance sheet date and transferred to cash at a future date. The current cash value for OSZO depends on the foreign exchange rates between the functional currency (CZK) and the foreign currency (e.g. EUR, USD) and on their fluctuation.

OSZO and its subsidiary realize most transactions in the functional currency (CZK) and show immaterial balances denominated in foreign currency at both presented balance sheet dates. Therefore, the foreign currency risk is immaterial.

Interest Rate Risks

Interest rate risk relates to interest-bearing assets and liabilities. The main source of this financial risk consists of two loans provided to OSZO and its subsidiary BESTSPORT by SAZKA, a.s. The first loan ("new loan" provided after SAZKA, a.s. realized the bond issue) bears a fixed interest rate of 9,975 % p.a. due half-yearly, each May and November. The earlier loan ("old loan" originated before the bond issue) bears a variable interest rate derived each May from 1Y PRIBOR.

Liquidity Risks

OSZO shows a significant portion of its total balance sheet amount (more than 80 %) as a liability to SAZKA, a.s. This liability consists of two loans provided by SAZKA, a.s. in previous periods. OSZO has an obligation to pay each May and November the principal amount payments and interest payments of the new loan to SAZKA, a.s. The maturity day of the old loan is deferred until December 2014. However, interest is paid in accordance with the agreed schedule. At 31 December 2005, OSZO estimates future cash payments including principal and interest at a total amount of CZK 8,329,528 thousands for the new loan provided on 5 May 2004 and CZK 2,921,233 thousand for the loan provided before 5 May 2004.

Liquidity risk also results from the several lease agreements. Under the existing lease agreements that are shown at 31 December 2005 OSZO is obliged to pay approximately the amount of CZK 7,400 thousand monthly.

Credit Risks

Credit risk results from doubtful receivables and similar assets. OSZO shows only current receivables including trade receivables and tax receivables. The balance of these receivables shown at the balance sheet date is not material. Therefore, the credit risk is currently immaterial.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because the former is based on the Czech tax legislation and the latter

on the Czech Accounting Standards. It excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. OSZO's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax is presented as a non-current asset or liability in the balance sheet.

At 31 December 2005 and 2004, the deferred tax was calculated as deferred tax asset in the amount of CZK 122,680 thousand and CZK 124,347 thousand. OSZO does not expect to generate a future taxable profit and therefore the deferred tax asset is not recognized and shown in the consolidated balance sheet.

Revenue Recognition

Revenue is measured at fair value of the consideration received or receivable and represents the amount receivable for goods and services provided in the normal course of business, net of discount, VAT and other sales related taxes.

Revenue from **rents of the "SAZKA" Arena** is represented by proceeds received or receivable from various organizations that hold concerts, sports and other events in the "SAZKA" Arena. The revenue is recognized on the accrual basis when the relevant event takes place.

Revenue from **rents of Skyboxes and VIP seats** is represented by proceeds received or receivable from various entities – companies or persons – that can purchase skyboxes or seats for its own purposes from OSZO. The skyboxes and seats are always sold for the annual period starting and finishing in April each year. The payment for them is made for the whole period in advance. Therefore, the revenue is recognised on the accrual basis and unearned revenue related to the period from January to April after the balance sheet date is shown as deferred income in the consolidated balance sheet.

Revenue from **rents of catering area** is represented by proceeds received or receivable from Pivovary Staropramen, a.s. and other subcontractors that sells food and drink in the "SAZKA" Arena and pays OSZO for the premises used. The revenue is recognized on the accrual basis.

Revenue from **rents of hoardings** is represented by proceeds received or receivable from various entities that can purchase hoarding in the "SAZKA" Arena for their logos and trademarks. This revenue includes proceeds from SAZKA, a.s. for using the name of the Arena.

Other revenue from rents – for commercial purposes – is recognized on the accrual basis.

Proceeds from SAZKA, a.s.

OSZO is a Czech non-profit civic association and its activities include the creation of conditions favourable to the support of sports, physical education, tourism, culture and education, the support of the construction of sports facilities and their efficient usage and the co-ordination of the activities of its members in the Czech Republic. In accordance with this fact, OSZO is an entitled recipient of the proceeds that SAZKA, a.s. distributes according to Act No. 202/1990 Coll., on Lotteries and Other Similar Games (the „Lotteries Act“). The proceeds received for 2005 and 2004 amount to CZK 620,715 thousand and CZK 490,894 thousand, respectively (see note 3.11).

In accordance with realized bond issue SAZKA, a.s. as issuer and OSZO as co-obligor signed a contract which represents an obligation for SAZKA, a.s. to distribute part of its proceeds to OSZO.

Events after the Balance Sheet Date

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves recognised in the financial statements.

3. NOTES TO THE BALANCE SHEETS AND INCOME STATEMENTS

3.1 Property, Plant and Equipment (PP&E)

| <i>In thousands CZK</i> | <i>Gross carrying amount at 31 December 2005</i> | <i>Accumulated depreciation</i> | <i>Accumulated impairments</i> | <i>Net carrying amount at 31 December 2005</i> |
|---|--|---------------------------------|--------------------------------|--|
| Buildings | 5,892,140 | 243,243 | 98,634 | 5,550,263 |
| Machines – playground | 209,105 | 13,177 | 0 | 195,928 |
| Machines – air conditioning | 163,726 | 10,093 | 0 | 153,633 |
| Electronic information systems | 298,363 | 54,325 | 0 | 244,038 |
| Electronic security systems | 90,636 | 8,425 | 0 | 82,211 |
| Machines and equipment for maintenance | 78,347 | 5,800 | 0 | 72,547 |
| Equipment – playground | 67,470 | 6,318 | 0 | 61,152 |
| Ticket offices | 87,604 | 9,427 | 0 | 78,177 |
| Kitchen equipment | 177,193 | 13,538 | 0 | 163,655 |
| Furniture | 220,573 | 22,312 | 0 | 198,261 |
| Tangible assets in course of construction | 1,099,274 | 0 | 0 | 1,099,274 |
| Ice smoother (finance lease) | 5,934 | 544 | 0 | 5,390 |
| Information cube (finance lease) | 188,850 | 37,549 | 0 | 151,301 |
| Security equipment (finance lease) | 225,000 | 26,250 | 0 | 198,750 |
| Other (office equipment, telecommunication devices, backup sources) | 44,550 | 8,418 | 0 | 36,132 |
| Works of art and collections | 8,827 | 0 | 0 | 8,827 |
| Total | 8,857,591 | 459,419 | 98,634 | 8,299,539 |

| <i>In thousands CZK</i> | <i>Gross carrying amount at 31 December 2004</i> | <i>Accumulated depreciation</i> | <i>Accumulated impairments</i> | <i>Net carrying amount at 31 December 2004</i> |
|---|--|---------------------------------|--------------------------------|--|
| Buildings | 5,703,948 | 94,103 | 98,634 | 5,511,211 |
| Machines – playground | 209,105 | 6,100 | 0 | 203,005 |
| Machines – air conditioning | 163,582 | 4,033 | 0 | 159,549 |
| Electronic information systems | 299,548 | 21,912 | 0 | 277,636 |
| Electronic security systems | 93,127 | 5,065 | 0 | 88,062 |
| Machines and equipment for maintenance | 78,271 | 1,515 | 0 | 76,756 |
| Equipment – playground | 67,597 | 2,533 | 0 | 65,064 |
| Ticket offices | 87,604 | 3,894 | 0 | 83,710 |
| Kitchen equipment | 170,985 | 6,262 | 0 | 164,723 |
| Furniture | 222,145 | 9,773 | 0 | 212,372 |
| Tangible assets in course of construction | 1,150,757 | 0 | 0 | 1,150,757 |
| Ice smoother (finance lease) | 5,934 | 247 | 0 | 5,687 |
| Information cube (finance lease) | 188,850 | 17,068 | 0 | 171,782 |
| Security equipment (finance lease) | 225,000 | 11,250 | 0 | 213,750 |
| Other (office equipment, telecommunication devices, backup sources) | 44,201 | 4,137 | 0 | 40,064 |
| Works of art and collections | 10,827 | 0 | 0 | 10,827 |
| Total | 8,721,481 | 187,892 | 98,634 | 8,434,955 |

In 2005, the net carrying amount of tangible assets was decreased by CZK 135,416 thousand as follows:

| <i>In thousands CZK</i> | <i>Net carrying amount at 31 December 2004</i> | <i>Additions</i> | <i>Disposals</i> | <i>Depreciation expense</i> | <i>Impairment losses</i> | <i>Net carrying amount at 31 December 2005</i> |
|---|--|------------------|------------------|-----------------------------|--------------------------|--|
| Buildings | 5,511,211 | 188,192 | 0 | 149,140 | 0 | 5,550,263 |
| Machines – playground | 203,005 | 0 | 0 | 7,077 | 0 | 195,928 |
| Machines – air conditioning | 159,548 | 144 | 0 | 6,060 | 0 | 153,632 |
| Electronic information systems | 277,636 | 0 | 2,405 | 31,193 | 0 | 244,038 |
| Electronic security systems | 88,062 | 0 | 2,490 | 3,361 | 0 | 82,211 |
| Machines and equipment for maintenance | 76,756 | 76 | 0 | 4,286 | 0 | 72,546 |
| Equipment – playground | 65,064 | 0 | 0 | 3,911 | 0 | 61,153 |
| Ticket offices | 83,711 | 0 | 0 | 5,534 | 0 | 78,177 |
| Kitchen equipment | 164,722 | 9,885 | 233 | 10,719 | 0 | 163,655 |
| Furniture | 212,372 | 493 | 414 | 14,190 | 0 | 198,261 |
| Tangible assets in course of construction | 1,150,757 | 167,957 | 219,440 | 0 | 0 | 1,099,274 |
| Ice smoother (finance lease) | 5,687 | 0 | 0 | 297 | 0 | 5,390 |
| Information cube (finance lease) | 171,782 | 0 | 0 | 20,481 | 0 | 151,301 |
| Security equipment (finance lease) | 213,750 | 0 | 0 | 15,000 | 0 | 198,750 |
| Other (office equipment, telecommunication devices, backup sources) | 40,065 | 435 | 86 | 4,281 | 0 | 36,133 |
| Works of art and collections | 10,827 | 0 | 2,000 | 0 | 0 | 8,827 |
| Total | 8,434,955 | 367,182 | 227,068 | 275,530 | 0 | 8,299,539 |

In 2004, the net carrying amount of tangible assets was increased by CZK 2,970,558 thousand as follows:

| <i>In thousands CZK</i> | <i>Net carrying amount at 31 December 2003</i> | <i>Additions</i> | <i>Disposals</i> | <i>Depreciation expense</i> | <i>Impairment losses</i> | <i>Net carrying amount at 31 December 2004</i> |
|---|--|-------------------|------------------|-----------------------------|--------------------------|--|
| Buildings | 797 | 5,703,182 | 30 | 94,105 | 98,634 | 5,511,211 |
| Machines – playground | — | 209,105 | — | 6,100 | — | 203,005 |
| Machines – air conditioning | — | 163,582 | — | 4,033 | — | 159,548 |
| Electronic information systems | — | 351,538 | 43,631 | 21,912 | 8,359 | 277,636 |
| Electronic security systems | — | 167,081 | 62,063 | 5,064 | 11,891 | 88,062 |
| Machines and equipment for maintenance | — | 78,442 | 171 | 1,515 | — | 76,756 |
| Equipment — playground | — | 67,597 | 0 | 2,533 | — | 65,064 |
| Ticket offices | — | 87,604 | 0 | 3,894 | — | 83,711 |
| Kitchen equipment | — | 183,635 | 12,650 | 6,262 | — | 164,722 |
| Furniture | 735 | 221,507 | 102 | 9,768 | — | 212,372 |
| Tangible assets in course of construction | 5,442,099 | 2941,931 | 7,233,273 | — | — | 1,150,757 |
| Ice smoother (finance lease) | — | 5,934 | — | 247 | — | 5,687 |
| Information cube (finance lease) | — | 188,850 | — | 17,068 | — | 171,782 |
| Security equipment (finance lease) | — | 225,000 | — | 11,250 | — | 213,750 |
| Other (office equipment, telecommunication devices, backup sources) | 20,766 | 22,735 | — | 3,436 | — | 40,065 |
| Works of art and collections | — | 10,827 | — | — | — | 10,827 |
| Total | 5,464,397 | 10,628,550 | 7,351,920 | 187,187 | 118,884 | 8,434,955 |

In 2004, OSZO entered into a contract with Group 4 Securitas a.s. (“G4S”). G4S bought the existing security equipment from OSZO. According to this contract G4S provides security services in the “SAZKA” Arena and leases the bought equipment and newly acquired equipment to OSZO. No gain was realized in this transaction.

OSZO is obliged to pledge the “SAZKA” Arena at the total amount of CZK 8,483,669 thousand as a security for liabilities resulting from the bond issue that was carried out by SAZKA, a.s. as issuer and OSZO as co-obligor in May 2004. This obligation results from the Trust Deed concluded between SAZKA, a.s., Občanské sdružení ZELENÝ OSTROV, BESTSPORT akciová společnost, J.P. MORGAN CORPORATE TRUSTEE SERVICES LIMITED (“Trustee”) and JPMORGAN CHASE BANK, LONDON BRANCH (“Security Agent”). The relevant items of property, plant and equipment are pledged on behalf of the bond holders.

PP&E in the course of construction also includes the cost of a small arena CZK 1,098,996 thousand whose construction was interrupted. The decision about possible further construction will be made in the future.

3.2 Intangible Assets

| <i>In thousands CZK</i> | <i>Gross carrying amount at 31 December 2005</i> | <i>Accumulated amortisation</i> | <i>Net carrying amount at 31 December 2005</i> |
|-------------------------|--|---------------------------------|--|
| Administrative software | 11,700 | 5,551 | 6,149 |
| Technology software | 21,320 | 2,248 | 19,072 |
| Copyrights | 12,744 | 4,254 | 8,490 |
| Other | 374 | 307 | 67 |
| Total | 46,138 | 12,360 | 33,778 |

| <i>In thousands CZK</i> | <i>Gross carrying amount at 31 December 2004</i> | <i>Accumulated amortisation</i> | <i>Net carrying amount at 31 December 2004</i> |
|---|--|---------------------------------|--|
| Administrative software | 11,700 | 3,612 | 8,088 |
| Technology software | 21,320 | 26 | 21,294 |
| Copyrights | 19,587 | 4,452 | 15,135 |
| Other | 374 | 218 | 156 |
| Right to organize of ice-hockey world championship 2004 | 5,463 | 5,463 | — |
| Total | 58,444 | 13,771 | 44,673 |

The intangible assets included above have finite useful lives, over which the assets are amortised.

In 2005, the net carrying amount of intangible assets was decreased by CZK 10,895 thousand as follows:

| <i>In thousands CZK</i> | <i>Net carrying amount at 31 December 2004</i> | <i>Additions</i> | <i>Disposals</i> | <i>Amortisation expense</i> | <i>Net carrying amount at 31 December 2005</i> |
|-------------------------|--|------------------|------------------|-----------------------------|--|
| Administrative Software | 8,088 | — | — | 1,939 | 6,149 |
| Technology Software | 21,294 | — | — | 2,222 | 19,072 |
| Copyrights | 15,135 | — | 3,173 | 3,472 | 8,490 |
| Other | 156 | — | — | 89 | 67 |
| Total | 44,673 | — | 3,173 | 7,722 | 33,778 |

In 2004, the net carrying amount of intangible assets was increased by CZK 30,098 thousand as follows:

| <i>In thousands CZK</i> | <i>Net carrying amount at 31 December 2003</i> | <i>Additions</i> | <i>Disposals</i> | <i>Amortisation expense</i> | <i>Net carrying amount at 31 December 2004</i> |
|---|--|------------------|------------------|-----------------------------|--|
| Administrative Software | 1,931 | 10,051 | 298 | 3,595 | 8,088 |
| Technology Software | — | 21,320 | — | 26 | 21,294 |
| Copyrights | 6,999 | 11,254 | — | 3,118 | 15,135 |
| Other | 183 | 61 | — | 88 | 156 |
| Right to organize of ice-hockey world championship 2004 | 5,463 | — | — | 5,463 | — |
| Total | 14,576 | 42,686 | 298 | 12,290 | 44,673 |

No impairment losses or impairment reversals were recognised in 2005 and 2004 and no exceptional write-down of intangible assets was made.

3.3 Inventory

At 31 December 2005 and 2004, OSZO shows purchased promotion items (such as medals, brooches, books etc.) that are stated at cost, amounting to CZK 2,518 thousand and CZK 2,561 thousand, respectively. No write-downs or reversal of write-downs were recognized in 2005 and 2004.

3.4 Trade and Other Receivables

| <i>In thousands CZK</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|-------------------------|--------------------------------|--------------------------------|
| Trade receivables | 65,944 | 53,224 |
| Tax receivable | 9,901 | 78,345 |
| Other receivables | 101 | 10 |
| Total | 75,946 | 131,579 |

At 31 December 2005, the balance of trade receivables is net of CZK 7,622 thousand, the allowances for doubtful receivables, e.g. receivables 360 days overdue and receivables under lawsuits.

3.5 Cash and Cash Equivalents

| <i>In thousand CZK</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|-------------------------|--------------------------------|--------------------------------|
| Cash | 48,064 | 30,214 |
| Cash on hand | 831 | 167 |
| Bank accounts | 47,233 | 30,047 |
| Cash equivalents | — | 20,000 |
| Depository notes | — | 20,000 |
| Total | 48,064 | 50,214 |

Bank accounts are denominated in Czech currency and foreign currencies (EUR and USD). The balances of each group of bank accounts are shown in the following table:

| <i>Type of bank account</i> | <i>At 31 December 2005 in units of relevant currency</i> | <i>Exchange rate CZK/XXX</i> | <i>At 31 December 2005 in thousands CZK</i> |
|-----------------------------|--|----------------------------------|---|
| Bank accounts in CZK | 47,022,889 | 1,000 | 47,023 |
| Bank accounts in EUR | 7,173 | 29,005 | 208 |
| Bank accounts in USD | 75 | 24,588 | 2 |
| Total | x | x | 47,233 |

| <i>Type of bank account</i> | <i>At 31 December 2004 in units of relevant currency</i> | <i>Exchange rate CZK/XXX</i> | <i>At 31 December 2004 in thousands CZK</i> |
|-----------------------------|--|----------------------------------|---|
| Bank accounts in CZK | 28,302,406 | 1,000 | 28,302 |
| Bank accounts in EUR | 57,131 | 30,465 | 1,741 |
| Bank accounts in USD | 160 | 22,365 | 4 |
| Total | x | x | 30,047 |

At 31 December 2005 and 2004, the foreign currency accounts are retranslated at the rates prevailing on the balance sheet date and differences are recognised as foreign currency gains or losses in the profit or loss for the period.

At 31 December 2004, OSZO shows the following interest-bearing **depository (bank) note** (in thousands CZK):

| <i>Bank depository notes</i> | <i>Carrying amount</i> | <i>Date of issue</i> | <i>Date of maturity</i> | <i>Interest rate p.a.</i> |
|------------------------------|----------------------------|--------------------------|-----------------------------|-------------------------------|
| Komercni banka, a.s. | 20,000 | 28 Dec 2004 | 3 Jan 2005 | 2.20% |

No cash and cash equivalents are restricted for use.

3.6 Shareholders' Equity

OSZO is non-profit civic association without any share capital. The relevant owners have only legal status and do not create any share capital. Therefore, the equity presented in the consolidated balance sheet includes only retained deficit in the total amount of CZK (733,880) thousand and CZK (545,950) thousand at 31 December 2005 and 2004, respectively.

Losses of BESTSPORT applicable to the minority exceeded the minority interest in the subsidiary's equity. Therefore, the losses of CZK thousand and CZK thousand are allocated against the majority interest at 31 December 2005 and 2004, respectively.

3.7 Corporate and Bank Borrowings

| <i>In thousands CZK</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|--|--------------------------------|--------------------------------|
| Loan provided by SAZKA, a.s. | | |
| <i>Long-term</i> | 6,970,236 | 7,118,712 |
| nominal | 6,808,564 | 7,052,000 |
| accrued interest | 161,672 | 66,712 |
| <i>Short-term</i> | 353,290 | 305,599 |
| nominal | 263,824 | 213,501 |
| accrued interest | 89,466 | 92,098 |
| Loan provided by SAZKA, a.s., total | 7,323,526 | 7,424,311 |
| Promissory notes | | |
| <i>Long-term</i> | 1,168,477 | 848,783 |
| DAMOVO, s.r.o. | 362,661 | 503,485 |
| SAZKA, a.s. | 496,816 | 345,298 |
| Sparkasse KölnBonn | 309,000 | — |
| <i>Short-term</i> | 123,106 | 124,771 |
| DAMOVO, s.r.o. | 110,092 | 112,232 |
| SAZKA, a.s. | 13,014 | 12,539 |
| Promissory notes, total | 1,291,583 | 973,554 |
| Total | 8,615,109 | 8,397,865 |
| Total long-term portion | 8,138,713 | 7,967,495 |
| Total short-term portion | 476,396 | 430,370 |

3.8 Trade and Other Payables

| <i>In thousands CZK</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|----------------------------------|--------------------------------|--------------------------------|
| <i>Long-term</i> | | |
| Obligations under finance leases | 246,275 | 312,747 |
| Trade and other liabilities | 25,287 | 34,973 |
| Total long-term balance | 271,562 | 347,720 |
| <i>Short-term</i> | | |
| Trade liabilities | 177,806 | 264,783 |
| Obligations under finance leases | 66,472 | 62,508 |
| Tax payable | 654 | 62,224 |
| Accrued employee compensation | 2,512 | 3,297 |
| Social security and health care | 922 | 663 |
| Other payables | 7,013 | 12,582 |
| Total short-term balance | 255,379 | 406,057 |
| | 526,941 | 753,777 |

3.9 Provisions

| <i>In thousands CZK</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|--|--------------------------------|--------------------------------|
| Provision for loss related to missing leased property (long-term) | ,1205 | 1,205 |
| Provision for loss resulting from arbitration (short-term) | 14,477 | — |
| Total | 15,682 | 1,205 |

In 2005, BESTSPORT and GBI Talent Group LCC conducted the arbitration as a consequence of a withdrawal from a business contract by BESPORT. In accordance with the decision of the arbitration conducted under the rules of International Commercial Council ICC No. 13821/EBS, BESTSPORT shall pay USD 600 thousand till five days since the effective date of the settlement contract signed between both parties.

The settlement contract was not signed at the balance sheet date and OSZO created the provision of CZK 14,477 thousand that represent estimated future liability. On 14 April 2006, BESTSPORT redeemed the liability resulting from the arbitration and paid the relevant amount to GBI Talent Group LLC.

At 31 December 2004, a shortage of 18 screens leased under finance leases was found out during the stock taking. The ownership of the leased property is not transferred at the end of the lease term (15 March 2009) and OSZO is obliged to return all leased property or pay relevant amount. Therefore, OSZO created a provision of CZK 1 205 thousand at 31 December 2004 that represent future estimated liability. The provision was incorrectly presented among current liabilities at 31 December 2004. At 31 December 2005, reclassification affecting also previous year was made.

3.10 Revenue

| <i>In thousands CZK</i> | <i>Year ended 31 December 2005</i> | <i>Year ended 31 December 2004</i> |
|--------------------------------|--|--|
| Rent of the “SAZKA” Arena | 95,890 | 48,065 |
| Rent of Skyboxes and VIP seats | 89,293 | 102,708 |
| Rent of catering area | 30,667 | 17,020 |
| Rent of hoardings | 68,248 | 30,885 |
| Other rent | 44,187 | 72,948 |
| Other revenue | 2,731 | 72 |
| Total | 331,016 | 271,698 |

3.11 Other income

| <i>In thousands CZK</i> | <i>Year ended 31 December 2005</i> | <i>Year ended 31 December 2004</i> |
|----------------------------------|--|--|
| Proceeds from SAZKA, a.s. | 620,715 | 490,894 |
| Donation provided by SAZKA, a.s. | 200,000 | — |
| Gain on sale of PP&E | 2,220 | — |
| Other operating income | 4,772 | 2,522 |
| Total | 827,707 | 493,416 |

3.12 Work performed by entity and capitalized

Overhead costs disbursed by OSZO during the construction of the “SAZKA” Arena were capitalized. In 2004, OSZO capitalized expenses with a total amount of CZK 128 519 thousand. In 2005, no operating expenses were capitalized.

3.13 Raw materials and consumables used

| <i>In thousands CZK</i> | <i>Year ended 31 December 2005</i> | <i>Year ended 31 December 2004</i> |
|-------------------------|--|--|
| Security services | 93,760 | 86,476 |
| Marketing | 11,284 | 59,309 |
| Energy consumption | 44,083 | 31,570 |
| Material consumption | 7,709 | 5,034 |
| Other services | 87,232 | 97,555 |
| Total | 244,068 | 279,944 |

3.14 Employee expenses

| <i>In thousands CZK</i> | <i>Year ended 31 December 2005</i> | <i>Year ended 31 December 2004</i> |
|--------------------------------------|--|--|
| Wages and salaries | 21,438 | 17,231 |
| Remuneration of board members | 1,034 | 868 |
| Social security and health insurance | 8,246 | 6,304 |
| Total | 30,718 | 24,403 |

3.15 Other Expenses

| <i>In thousands CZK</i> | <i>Year ended 31 December 2005</i> | <i>Year ended 31 December 2004</i> |
|--|--|--|
| Audit, consulting and legal services | 47,954 | 162,496 |
| Insurance expenses | 17,456 | 15,811 |
| Provision for loss resulting from arbitration (see note 3.9) | 14,477 | 1,205 |
| Bad debt expense | 7,220 | 402 |
| Others | 5,890 | 23,807 |
| Total | 92,997 | 203,721 |

3.16 Deferred tax

Deferred tax is measured applying the tax rate enacted for the period of the expected realization of the deferred income tax (e.g. 24 %). The significant components of activities that gave rise to the deferred tax assets and liabilities that are recorded in the balance sheet are as follows:

| <i>In thousand CZK</i> | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|---|--------------------------------|--------------------------------|
| Deferred tax liability: | | |
| Impairment of property, plant and equipment | (23,672) | (25,645) |
| Pre-paid expenses | (14,189) | (3,800) |
| Finance leases | (21,158) | — |
| Other temporary differences | — | (480) |
| Deferred tax liability, total | (59,019) | (29,925) |
| Deferred tax asset: | | |
| Finance leases | — | 4,151 |
| Tax loss carried forward | 181,443 | 147,760 |
| Other temporary differences | 136 | — |
| Differences in depreciation | 120 | 2,361 |
| Deferred tax asset, total | 181,699 | 154,272 |
| Net deferred tax | 122,680 | 124,347 |

OSZO does not expect a future taxable profit and therefore the deferred tax assets is not recognized and shown in the consolidated balance sheet.

4. CONTINGENCIES AND COMMITMENTS

Contingent Liabilities

In May 2004 SAZKA, a.s. as issuer and OSZO as co-obligor issued long-term amortising corporate bonds with a total nominal amount of EUR 175,000 thousand (CZK 5 656 000 thousand translated at the exchange rate CZK/EUR at the date of issue) and with a fixed interest coupon rate of 7.375% p.a. The outstanding balance of this contingent liability at 31 December 2005 is CZK 5,293,197 thousand.

In accordance with the Trust Deed concluded among SAZKA, a.s., Občanské sdružení ZELENÝ OSTROV, BESTSPORT akciová společnost, J.P. MORGAN CORPORATE TRUSTEE SERVICES LIMITED (“Trustee”) and JPMORGAN CHASE BANK, LONDON BRANCH (“Security Agent”) OSZO was pledged its total equity share in BESTSPORT akciová společnost on behalf of the bond holders.

Commitments

Finance Leases

At 31 December 2005 and 31 December 2004, OSZO shows the following finance lease commitments that have a material impact on its future financial position from the view as at the balance sheet date (in thousands CZK):

| | <i>At 31 December 2005</i> | <i>At 31 December 2004</i> |
|--|--------------------------------|--------------------------------|
| <i>Future minimum lease payments</i> | | |
| Not later than one year | 86,936 | 88,159 |
| Later than one year and not later than five years | 240,604 | 297,222 |
| Later than five years | 36,176 | 66,493 |
| Total | 363,716 | 451,874 |
| | | |
| <i>Present value of future minimum lease payments</i> | | |
| Not later than one year | 66,472 | 62,508 |
| Later than one year and not later than five years | 211,119 | 249,466 |
| Later than five years | 35,156 | 63,281 |
| Total | 312,747 | 375,255 |

The average lease term is almost 3 years. For the year ended 31 December 2005 and 2004, the average effective borrowing rate was 10.3% and 9.0%, respectively. Interest rates are fixed at the contract date, and thus expose OSZO to fair value interest rate risk. No arrangements have been entered into for contingent rental payments.

Operating Leases

At 31 December 2005 and 2004, OSZO shows no operating lease commitments that have a material impact on its future financial position from the view as at the balance sheet date.

At 31 December 2005 and 2004, OSZO does not show any other material commitments (e.g. guarantees) that could influence its future cash flow and financial position.

5. SUBSIDIARY

| <i>Subsidiary</i> | <i>Registered office</i> | <i>Proportion of ownership interest</i> | <i>Reporting Date of the Financial Statements</i> |
|------------------------------|--------------------------|---|---|
| BESTSPORT akciová společnost | Prague CzechRepublic | 90% | 31 December |

6. THE OWNERSHIP STRUCTURE OF OSZO

Občanské sdružení ZELENÝ OSTROV has the following structure of members who have equal status:

- Czech Physical Education Union
- Czech Sokol Community
- Czech „Sports for All“ Association
- Automotive Club of the Czech Republic
- Technical Sports and Activities Association of the Czech Republic
- Czech Olympic Committee
- Czech Shooting Union
- Association of Physical Education Organisations and Sports Clubs of the Czech Republic
- Orel

7. CORPORATE INFORMATION

Registered office of OSZO

Občanské sdružení ZELENÝ OSTROV
K Zizkovu cp. 851/4
190 00 Prague 9
Czech Republic

Board of Directors

Vladimír Srb, Chairman
Milan Jirasek, Vice-chairman
Jaroslav Bernad, Vice-chairman

Registered office of the subsidiary

BESTSPORT akciová společnost
K Zizkovu cp.851
190 93 Prague 9
Czech Republic

Board of Directors

Pavel Kořán, Chairman
Michal Krejcar, Vice-chairman
Josef Prouza, Member
Rostislav Neuvirt, Member
Stanislav Trykar, Member

Auditors

BDO CS s.r.o.
Olbrachtova 1980/5
140 00 Prague 4
Czech Republic

REGISTERED OFFICE OF THE ISSUER

SAZKA, a.s.
K Zizkovu cp. 851
190 93 Prague 9
Czech Republic

REGISTERED OFFICE OF THE CO-OBLIGOR

OBČANSKÉ SDRUŽENÍ ZELENÝ OSTROV
Českomoravská 2345/17,
190 00 Prague 9
Czech Republic

AUDITORS

to the Issuer and Co-obligor

BDO CS s.r.o.
Olbrachtova 1980/5
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Czech Republic

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as to Czech law

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as to English law

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LEGAL ADVISERS TO THE LEAD MANAGER

as to Czech law

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Czech Republic

as to English law

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London
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United Kingdom

TRUSTEE

J.P. Morgan Corporate Trustee Services Limited
Trinity Tower
9 Thomas More Street
London E1W 1YT
United Kingdom

PRINCIPAL PAYING AGENT AND SECURITY AGENT

JPMorgan Chase Bank, London Branch
Trinity Tower
9 Thomas More Street
London E1W 1YT
United Kingdom

LISTING AGENT AND LUXEMBOURG PAYING AGENT

J.P. Morgan Bank Luxembourg S.A.
5 Rue Plaetis L-2338
Luxembourg

