

OFFERING CIRCULAR



THE CZECH REPUBLIC

acting through the Ministry of Finance

€10,000,000,000

EURO MEDIUM TERM NOTE PROGRAMME

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

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

Arrangers and Dealers for the Programme

Barclays Capital

Deutsche Bank

10 February 2012

IMPORTANT NOTICES

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

This Offering Circular neither constitutes a prospectus pursuant to Part II of the Luxembourg law on prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) dated 10 July 2005 (the "**Luxembourg Prospectus law**") (which implements the Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (the "**Prospectus Directive**")) nor a simplified prospectus pursuant to Chapter 2 of Part III of the Luxembourg Prospectus Law. Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements of the Prospectus Directive and Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive, and it has not been and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Directive and in particular the Supervisory Commission of the Financial Sector (*Commission de Surveillance de Secteur Financier*), in its capacity as competent authority under the Luxembourg Prospectus Law. References in this paragraph to the "Prospectus Directive" mean Directive 2003/71/EC and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant Member State of the European Economic Area, and include any relevant implementing measure in the relevant Member State of the European Economic Area, and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

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

The Issuer has, pursuant to an amended and restated dealer agreement dated 10 February 2012 (the "**Dealer Agreement**") appointed Barclays Bank PLC and Deutsche Bank AG, London Branch (the "**Dealers**") as dealers for the Notes under the Programme, and has authorised and requested the Dealers to circulate this Offering Circular in connection with the Programme, subject to the provisions of the Dealer Agreement. The Issuer has confirmed to the Dealers that this Offering Circular is true, accurate and complete in all material respects and is not misleading; that the opinions and intentions expressed therein are honestly held and based on reasonable assumptions; that there are no other facts in relation to the information contained or incorporated by reference in this Offering Circular the omission of which would, in the context of the Programme or the issue of the Notes, make any statement therein or opinions or intentions expressed therein misleading in any material respect; and that all reasonable enquiries have been made to verify the foregoing. The Issuer has further confirmed to the Dealers that this Offering Circular (together with the relevant Final Terms) contains all such information as may be required by all applicable laws, rules and regulations.

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

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

Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon any such investigation as it deems necessary. Neither this Offering Circular, or any Final Terms, nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Offering Circular or any Final Terms, or any other information supplied relating to the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer, as it deems necessary.

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

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

All references in this Offering Circular to "**euro**", "**EUR**" or "**€**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended, all references to "**U.S. dollar**", "**USD**" or "**\$**" are to the lawful currency of the United States of America, all references to "**Sterling**" or "**£**" are to the currency of the United Kingdom and all references to "**Czech koruna**" or "**CZK**" are to the lawful currency of the Czech Republic.

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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

SUPPLEMENTARY OFFERING CIRCULAR

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

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OVERVIEW OF THE PROGRAMME

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

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

"CGN"), be delivered on or prior to the relevant issue date of the Tranche to a common depositary (the "**Common Depositary**") for Euroclear and/or Clearstream, Luxembourg. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Notes in definitive bearer form ("**Definitive Notes**") and/or (if so specified in the relevant Final Terms) Registered Form (as defined below) in accordance with its terms. Each Permanent Global Note will be exchangeable for Definitive Notes and/or (if so specified in the relevant Final Terms) Registered Notes in accordance with its terms. See further under "*Provisions Relating to the Notes in Global Form*" below. Definitive Notes will, if interest-bearing, either have interest coupons ("**Coupons**") attached and, if appropriate, a talon ("**Talon**") for further Coupons and will, if the principal thereof is repayable by instalments, have payment receipts ("**Receipts**") attached.

In respect of each Tranche of Notes in registered form, the Notes will be in the form of either individual Notes in registered form ("**Registered Notes**") or a global note in registered form (a "**Global Registered Note**"), in each case as specified in the relevant Final Terms. Each Note issued in registered form shall represent the entire holding of Notes by the same holder. Notes in registered form may not be exchanged for Notes in bearer form.

Tranches of Notes represented by a Global Registered Note will either be: (a) if a Global Registered Note is not to be held under the new safekeeping structure ("**New Safekeeping Structure**" or "**NSS**"), registered in the name of a Common Depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the Common Depositary; or (b) if a Global Registered Note is to be held under the New Safekeeping Structure, be registered in the name of a Common Safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the Common Safekeeper for Euroclear and/or Clearstream, Luxembourg.

- Currencies:** Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
- Status and Ranking of Notes:** Notes issued will constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer save for such obligations as may be preferred by provisions of law that are mandatory and of general application to creditor rights.
- Issue Price:** Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms.
- Maturities:** Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United

Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their business; or (ii) be issued in other circumstances which do not constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the Issuer.

- Redemption:** Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula or otherwise) as may be specified in the relevant Final Terms.
- Early Redemption:** Early redemption will be permitted as mentioned in the Terms and Conditions of the Notes under "*Optional Early Redemption (Call)*" and "*Optional Early Redemption (Put)*", only to the extent specified in the relevant Final Terms.
- Interest:** Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed or floating rate and may vary during the lifetime of the relevant Series.
- Denominations:** Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
- Taxation:** All payments in respect of Notes will be made free and clear of withholding taxes of the Czech Republic, unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 8) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
- Redenomination:** In respect of any Tranche of Notes, if the country of the Specified Currency becomes or, announces its intention to become, a Participating Member State, the Notes may be redenominated in euro in accordance with Condition 18 if so specified in the relevant Final Terms.
- Negative Pledge:** Notes will have the benefit of a negative pledge in relation to Public External Indebtedness of the Issuer, all as more fully described in Condition 4.
- Governing Law:** The Notes, all related contractual documentation and all non-contractual obligations arising out of or in connection with them will be governed by English law.
- Listing:** Each Series may be listed on the Luxembourg Stock Exchange and/or any other stock exchange as may be agreed between the Issuer and the relevant Dealer and specified in the relevant Final Terms or may be unlisted.
- Terms and Conditions:** Final Terms will be prepared in respect of each Tranche of Notes a copy of which will, in the case of Notes to be listed on the Luxembourg Stock Exchange be delivered to the Luxembourg

Stock Exchange on or before the date of issue of such Notes. The terms and conditions applicable to each Tranche will be those set out herein under "*Terms and Conditions of the Notes*" as supplemented, modified or replaced by the relevant Final Terms.

Enforcement of Notes in Global Form:

In the case of Notes in global form, individual investors' rights will be governed by a Deed of Covenant dated 10 February 2012 (the "**Deed of Covenant**"), a copy of which will be available for inspection at the specified office of the Fiscal Agent.

Clearing Systems:

Euroclear, Clearstream, Luxembourg and/or, in relation to any Notes, any other clearing system as may be specified in the relevant Final Terms.

Selling Restrictions:

For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering materials in the United States of America, the Czech Republic and the United Kingdom, see "*Subscription and Sale*".

Domestic Issuance Procedures:

The Issuer may issue Notes under the Programme domestically in the Czech Republic without the intermediation of any of the Dealers (the "**domestic issuance procedures**"). This Offering Circular is not however for use or distribution in connection with any issuance of Notes pursuant to the domestic issuance procedures. See also "*Subscription and Sale*".

The terms and conditions applicable to each Tranche of Notes issued pursuant to the domestic issuance procedures will be those set out in Schedule 12 of an amended and restated fiscal agency agreement dated 10 February 2012 (as amended, supplemented or replaced from time to time, the "**Fiscal Agency Agreement**") and made between the Issuer and the agents named therein (as supplemented, modified or replaced by the relevant final terms, the form of which is set out in Schedule 13 of the Fiscal Agency Agreement). In the case of Notes in global form issued pursuant to the domestic issuance procedures, individual investors' rights will also be governed by the Deed of Covenant. A copy of the Fiscal Agency Agreement and the Deed of Covenant will be available for inspection at the specified office of the Fiscal Agent.

TERMS AND CONDITIONS OF THE NOTES

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

Introduction

(a) *Programme*

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

(b) *Fiscal Agency Agreement*

The Notes are issued pursuant to and in accordance with an amended and restated fiscal agency agreement dated 10 February 2012, as amended, supplemented or replaced from time to time (the "**Fiscal Agency Agreement**") and made between the Issuer, Citibank, N.A., as Fiscal Agent (the "**Fiscal Agent**", which expression shall include any successor fiscal agent appointed from time to time in connection with the Notes), Citigroup Global Markets Deutschland AG, as Registrar (the "**Registrar**", which expression shall include any successor registrar appointed from time to time in connection with the Notes) and Citibank, N.A., as paying agent (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). For the purposes of making determinations or calculations of interest rates, interest amounts, redemption amounts or any other matters requiring determination or calculation in accordance with the Conditions of any Series of Notes (as defined below), the Issuer may appoint a calculation agent (the "**Calculation Agent**") for the purposes of such Notes, in accordance with the provisions of the Fiscal Agency Agreement, and such Calculation Agent shall be specified in the applicable Final Terms.

(c) *Deed of Covenant*

The Notes have the benefit of a deed of covenant dated 10 February 2012 (as amended, supplemented or replaced, the "**Deed of Covenant**") executed by the Issuer in relation to the Notes.

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

(d) *Final Terms*

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

(e) *The Notes*

References in these Terms and Conditions to Notes are to Notes of the relevant Series and any references to Coupons (as defined in Condition 1.2) and Receipts (as defined in Condition 1.3) are

to Coupons and Receipts relating to Notes of the relevant Series. References in these Terms and Conditions to the Final Terms are to the Final Terms prepared in relation to the Notes of the relevant Tranche or Series.

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

1. **Form and Denomination**

Form of Notes

1.1 Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**"), as specified in the Final Terms and are serially numbered. Registered Notes are not exchangeable for Bearer Notes. In respect of each Tranche of Notes in bearer form, the Notes will be initially issued in the form of a temporary global note (a "**Temporary Global Note**") or, if so specified in the relevant Final Terms, a permanent global Note (a "**Permanent Global Note**" and, together with the Temporary Global Note, the "**Global Notes**") which, in either case will:

- (a) if the Global Notes are intended to be issued in new global note ("**NGN**") form, as stated in the applicable Final Terms, be delivered on or prior to the relevant issue date of the Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), and
- (b) if the Global Notes are not intended to be issued in NGN form (classic global note, a "**CGN**"), be delivered on or prior to the relevant issue date of the Tranche to a common depositary (the "**Common Depositary**") for Euroclear and/or Clearstream, Luxembourg.

Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Notes in definitive bearer form ("**Definitive Notes**") and/or (if so specified in the relevant Final Terms) Registered Notes. Each Permanent Global Note will be exchangeable for Definitive Notes and/or (if so specified in the relevant Final Terms) Registered Notes in accordance with its terms. Each Note issued in registered form shall represent the entire holding of Registered Notes by the same holder. In respect of each Tranche of Registered Notes, the Notes will be in the form of either individual Notes or a global Note in registered form (a "**Global Registered Note**").

Each Global Registered Note will either be: (a) if a Global Registered Note is not to be held under the new safekeeping structure ("**New Safekeeping Structure**" or "**NSS**"), registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the common depositary; or (b) if a Global Registered Note is to be held under the New Safekeeping Structure, be registered in the name of a Common Safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the Common Safekeeper for Euroclear and/or Clearstream, Luxembourg.

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

Denomination of Bearer Notes

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

Denomination of Registered Notes

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

Currency of Notes

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

Partly Paid Notes

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

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

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

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

2. Title and Transfer

- 2.1 Title to Bearer Notes, Receipts and Coupons passes by delivery. References herein to the "**Holders**" of Bearer Notes or of Receipts or Coupons are to the bearers of such Bearer Notes or such Receipts or Coupons.

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

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

- 2.4 A Registered Note may, upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement, be transferred in whole or in part only (**provided that** such part is, or is an integral multiple of, the minimum denomination specified in the Final Terms) upon the surrender of the Registered Note to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar or any Transfer Agent. A new Registered Note will be issued to the transferee and, in the case of a transfer of part only of a Registered Note, a new Registered Note in respect of the balance not transferred will be issued to the transferor.
- 2.5 If so specified in the Final Terms, the Holder of Bearer Notes may exchange the same for the same aggregate principal amount of Registered Notes upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement. In order to exchange a Bearer Note for a Registered Note, the Holder thereof shall surrender such Bearer Note at the specified office outside the United States or its possessions of the Fiscal Agent, the Registrar or of any Transfer Agent together with a written request for the exchange. Each Bearer Note so surrendered must be accompanied by all unmatured Receipts and Coupons appertaining thereto other than the Coupon in respect of the next payment of interest falling due after the exchange date (as defined in Condition 2.6) where the exchange date would, but for the provisions of Condition 2.6 occur between the Record Date (as defined in Condition 9B.3) for such payment of interest and the date on which such payment of interest falls due.
- 2.6 Each new Registered Note to be issued upon the transfer of a Registered Note or the exchange of a Bearer Note for a Registered Note will, within three Relevant Banking Days of the transfer date or, as the case may be, the exchange date be available for collection by each relevant Holder at the specified office of the Registrar or any Transfer Agent or, at the option of the Holder requesting such exchange or transfer be mailed (by uninsured post at the risk of the Holder(s) entitled thereto) to such address(es) as may be specified by such Holder. For these purposes, a form of transfer or request for exchange received by the Registrar, the Fiscal Agent or any Transfer Agent after the Record Date in respect of any payment due in respect of Registered Notes shall be deemed not to be effectively received by the Registrar, Fiscal Agent or any Transfer Agent until the day following the due date for such payment. For the purposes of these Terms and Conditions:
- (i) the "**Relevant Banking Day**" means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Registrar is located and, in the case only of an exchange of a Bearer Note for a Registered Note where such request for exchange is made to the Fiscal Agent, in the place where the specified office of the Fiscal Agent or the Transfer Agent is located;
 - (ii) the "**exchange date**" shall be the Relevant Banking Day following the day on which the relevant Bearer Note shall have been surrendered for exchange in accordance with Condition 2.5; and

(iii) the "**transfer date**" shall be the Relevant Banking Day following the day on which the relevant Registered Note shall have been surrendered for transfer in accordance with Condition 2.4.

2.7 The issue of new Registered Notes on transfer or on the exchange of Bearer Notes for Registered Notes will be effected without charge by or on behalf of the Issuer, the Fiscal Agent, the Registrar or the Transfer Agent, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer, the Fiscal Agent, the Registrar or the Transfer Agent may require in respect of) any tax, duty or other governmental charges which may be imposed in relation thereto.

2.8 All transfers of Registered Notes, exchange of Bearer Notes for Registered Notes and entries on the Register are subject to the detailed regulations and certain closed periods concerning the transfer and/or exchange of Notes scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed free of charge by the Registrar to any Holder who requests in writing a copy of such regulations.

3. **Status of the Notes**

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

4. **Negative Pledge**

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

For the purposes of this Condition 4:

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

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

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

5. **Interest**

Interest

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

Interest-bearing Notes

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

Fixed Rate Notes

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

Floating Rate Notes

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

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

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

ISDA Rate Notes

- 5.5 If the Final Terms specify the Interest Rate applicable to the Notes as being ISDA Rate, each Note shall bear interest as from such date, and at such rate or in such amounts, and such interest will be payable on such dates, as would have applied (regardless of any event of default or

termination event or tax event thereunder) if the Issuer had entered into an interest rate swap transaction with the Holder of such Note under the terms of an agreement to which the ISDA Definitions applied and under which:

- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
- (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and
- (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.

Index-Linked Notes

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

Maximum or Minimum Interest Rate

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

Accrual of Interest

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

Interest Amount(s), Calculation Agent and Reference Banks

- 5.9 If a Calculation Agent is specified in the Final Terms, the Calculation Agent, as soon as practicable after the Relevant Time on each Interest Determination Date (or such other time on such date as the Calculation Agent may be required to calculate any Redemption Amount or Instalment Amount, obtain any quote or make any determination or calculation) will determine the Interest Rate and calculate the amount(s) of interest payable (the "**Interest Amount(s)**") per Calculation Amount for the relevant Interest Accrual Period, calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date or, as the case may be, the Redemption Amount or any Instalment Amount, to be notified to the Fiscal Agent, the Registrar or any Transfer Agent (in the case of Registered Notes), the Issuer, the Holders in accordance with Condition 14 and, if the Notes are listed on a stock exchange and the rules of such exchange so requires, such exchange as soon as possible after their

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

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

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

Calculations and Adjustments

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

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

Definitions

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

"**Applicable Business Day Convention**" means the "**Business Day Convention**" which may be specified in the Final Terms as applicable to any date in respect of the Notes. Where the Final Terms specifies "**No Adjustment**" in relation to any date, such date shall not be adjusted in accordance with any Business Day Convention. Where the Final Terms fails either to specify an applicable Business Day Convention or "**No Adjustment**" for the purposes of an Interest Payment Date or an Interest Period End Date, then in the case of Notes which bear interest at a fixed rate, "**No Adjustment**" shall be deemed to have been so specified and in the case of Notes which bear interest at a floating rate, the Modified Following Business Day Convention shall be deemed to have been so specified. Different Business Day Conventions may apply, or be specified in relation to, the Interest Payment Dates, Interest Period End Dates and any other date or dates in respect of any Notes;

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

"Business Day" means:

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

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

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

"Calculation Amount" means such amount as specified in the Final Terms;

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

- (i) if **"Actual/Actual (ISDA)"** or **"Actual/Actual"** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

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

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

"Interest Payment Date" means the date or dates specified as such in, or determined in accordance with the provisions of, the Final Terms and, if an Applicable Business Day Convention is specified in the Final Terms, as the same may be adjusted in accordance with the Applicable Business Day Convention or if the Applicable Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the Final Terms as being the Interest Period, each of such dates as may occur in accordance with the FRN Convention at

such specified period of calendar months following the date of issue of the Notes (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

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

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

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

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

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

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

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

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

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

"Reference Rate" has the meaning given to it in the relevant Final Terms;

"Relevant Financial Centre" has the meaning given to it in the relevant Final Terms;

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

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

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

"**Target Business Day**" means a day on which the TARGET2 is open for the settlement of payments in euro;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007; and

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

Zero Coupon Notes

- 5.12 If any Redemption Amount (as defined in Condition 6.9) or Instalment Amount in respect of any Note which is non-interest bearing is not paid when due, interest shall accrue on the overdue amount at a rate per annum (expressed as a percentage per annum) equal to the Amortisation Yield defined in, or determined in accordance with the provisions of, the Final Terms or at such other rate as may be specified for this purpose in the Final Terms until the date on which, upon due presentation or surrender of the relevant Note (if required), the relevant payment is made or, if earlier (except where presentation or surrender of the relevant Note is not required as a precondition of payment), the seventh day after the date on which, the Fiscal Agent or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the Holders of the Notes in accordance with Condition 15 that the Fiscal Agent or, as the case may be, the Registrar has received the required funds (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder). The amount of any such interest shall be calculated in accordance with the provisions of Condition 5.10 as if the Interest Rate was the Amortisation Yield, the Outstanding Principal Amount was the overdue sum and the Day Count Fraction was as specified for this purpose in the Final Terms or, if not so specified, 30E/360 (as defined in Condition 5.11).

6. **Redemption and Purchase**

Redemption at Maturity

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

Optional Early Redemption (Call)

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

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

6.3 The appropriate notice referred to in Condition 6.2 is a notice given by the Issuer to the Holders of the Notes of the relevant Series in accordance with Condition 14, which notice shall be irrevocable and shall specify:

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

Partial Redemption

6.4 If the Notes of a Series are to be redeemed in part only on any date in accordance with Condition 6.2, the Notes to be redeemed (the "**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Notes represented by a Global Note, not more than thirty days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than fifteen days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6.4 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date. In the case of Registered Notes, each Registered Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Registered Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Registered Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

Optional Early Redemption (Put)

6.5 If this Condition 6.5 is specified in the Final Terms as being applicable, then the Issuer shall, upon the exercise of the relevant option by the Holder of any Note of the relevant Series, redeem such Note on the date specified in the relevant Put Notice (as defined below) at its put early redemption amount (the "**Early Redemption Amount (Put)**") (which shall be its Outstanding Principal Amount or, if such Note is non-interest bearing, its Amortised Face Amount (as defined in Condition 6.10) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms), together with accrued interest (if any) thereon. In order to exercise such option, the Holder must, not less than forty-five days before the date on which such redemption is required to be made as specified in the Put Notice (which date shall be such date or the next of the dates (the "**Put Date(s)**") or a day falling within such period (the "**Put Period**") as may be specified in the Final Terms), deposit the relevant Note (together, in the case of an interest-bearing Note in bearer form, with all unmatured Coupons appertaining thereto other than any Coupon maturing on or before the date of redemption (failing which the provisions of

Condition 9A.6 apply)) during normal business hours at the specified office of, in the case of a Bearer Note, any Paying Agent or, in the case of a Registered Note, the Registrar or any Transfer Agent together with a duly completed early redemption notice (the "**Put Notice**") in the form which is available from the specified office of any of the Paying Agents, the Registrar or, as the case may be any Transfer Agent, specifying, in the case of a Registered Note, the aggregate principal amount in respect of which such option is exercised (which must be the minimum denomination specified in the Final Terms or an integral multiple thereof). No Note so deposited and option exercised may be withdrawn (except as provided in the Fiscal Agency Agreement). In the event any Notes of the relevant Series are redeemed pursuant to Condition 6.5 (so long as such Notes are listed on the Luxembourg Stock Exchange) the Issuer shall inform the Luxembourg Stock Exchange of such early redemption.

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

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

Purchase of Notes

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

Redeemed and Purchased Notes

- 6.7 All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 6.6 (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Paying Agent and cannot be reissued or resold.

Further Provisions applicable to Redemption Amount and Instalment Amounts

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

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

6.11 In the case of any Zero Coupon (non-interest bearing) Note, if any Redemption Amount (other than the Maturity Redemption Amount) is improperly withheld or refused or default is otherwise made in the payment thereof, the Amortised Face Amount shall be calculated as provided in Condition 6.10 but as if references in subparagraph (ii) to the date fixed for redemption or the date upon which such Note becomes due and repayable were replaced by references to the earlier of:

- (i) the date on which, upon due presentation or surrender of the relevant Note (if required), the relevant payment is made; and
- (ii) (except where presentation or surrender of the relevant Note is not required as a precondition of payment), the seventh day after the date on which, the Fiscal Agent or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the Holders of the Notes in accordance with Condition 15 of that circumstance (except to the extent that there is a failure in the subsequent payment thereof to the relevant Holder).

7. Events of Default

7.1 The following events or circumstances (each an "**Event of Default**") shall be acceleration events in relation to the Notes of any Series, namely:

- (i) **Non-payment:** the Issuer fails to pay any amount of interest in respect of the Notes of the relevant Series or any of them within 30 days of the due date for payment thereof; or
- (ii) **Breach of other obligations:** the Issuer defaults in the performance or observance of any of its other material obligations under or in respect of the Notes of the relevant Series and such default remains unremedied for 45 days after written notice requiring such default to be remedied has been delivered to the Issuer at the specified office of the Fiscal Agent by the Holder of any such Note.

7.2 If any Event of Default shall occur in relation to any Series of Notes, all of the Notes may, by written notice addressed and delivered by the Holders of at least 25 per cent. of the aggregate principal amount of the outstanding Notes to the Fiscal Agent, be declared immediately due and payable whereupon, unless the Issuer shall have cured or otherwise rectified the Relevant Event they shall become immediately due and payable at the early termination amount of each Note (the "**Early Termination Amount**") (which shall be its Outstanding Principal Amount or, if such Note is non-interest bearing, its Amortised Face Amount (as defined in Condition 6.10) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms), together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Holders.

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

8. Taxation

8.1 All amounts payable (whether in respect of principal, interest or otherwise) in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Czech Republic or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges (the "**Taxes**") is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Holder after such withholding or deduction shall equal the respective amounts

which would have been received by such Holder in the absence of such withholding or deduction; except that no such additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

- (i) presented for payment by a Holder which is liable to such Taxes in respect of such Note or Coupon by reason of the Holder having some connection with the Czech Republic other than the mere holding of such Note or Coupon; or
- (ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iii) by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the EU; or
- (iv) more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had presented such Note or Coupon on the last day of such period of 30 days.

8.2 For the purposes of these Terms and Conditions, the "**Relevant Date**" means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the monies payable has not been received by the Fiscal Agent, or as the case may be, the Registrar on or prior to such due date, it means the first date on which, the full amount of such monies having been so received and being available for payment to Holders, notice to that effect shall have been duly given to the Holders of the Notes of the relevant Series in accordance with Condition 15.

8.3 Any reference in these Terms and Conditions to "**principal**" and/or "**interest**" in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition 8. Unless the context otherwise requires, any reference in these Terms and Conditions to "**principal**" shall include any premium payable in respect of an Note, any Instalment Amount or Redemption Amount and any other amounts in the nature of principal payable pursuant to these Terms and Conditions and "**interest**" shall include all amounts payable pursuant to Condition 5 and any other amounts in the nature of interest payable pursuant to these Terms and Conditions.

9. **Payments**

9A *Payments – Bearer Notes*

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

9A.2 Payment of amounts (other than interest) due in respect of Bearer Notes will be made against presentation and (save in the case of partial payment or payment of an Instalment Amount (other than the final Instalment Amount)) surrender of the relevant Bearer Notes at the specified office of any of the Paying Agents.

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

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

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

- 9A.3 Payment of amounts in respect of interest on Bearer Notes will be made:
- (i) in the case of Notes without Coupons attached thereto at the time of their initial delivery, against presentation of the relevant Notes at the specified office of any of the Paying Agents outside (unless Condition 9A.4 applies) the United States or its possessions; and
 - (ii) in the case of Notes delivered with Coupons attached thereto at the time of their initial delivery, against surrender of the relevant Coupons or, in the case of interest due otherwise than on a scheduled date for the payment of interest, against presentation of the relevant Notes, in either case at the specified office of any of the Paying Agents outside (unless Condition 9A.4 applies) the United States or its possessions.
- 9A.4 Payments of amounts due in respect of interest on the Notes and exchanges of Talons for Coupon sheets in accordance with Condition 9A.7 will not be made at the specified office of any Paying Agent in the United States (as defined in the United States Internal Revenue Code and Regulations thereunder) unless (a) payment in full of amounts due in respect of interest on such Notes when due or, as the case may be, the exchange of Talons at all the specified offices of the Paying Agents outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (b) such payment or exchange is permitted by applicable United States law. If paragraphs (a) and (b) of the previous sentence apply, the Issuer shall forthwith appoint a further Paying Agent with a specified office in New York City.
- 9A.5 If the due date for payment of any amount due in respect of any Note is not a Relevant Financial Centre Day and a Local Banking Day (each as defined in Condition 9C.3), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day, (or as otherwise specified in the Final Terms) and from such day and thereafter will be entitled to receive payment by cheque on any Local Banking Day, and will be entitled to payment by transfer to a designated account on any day which is a Local Banking Day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such delay or adjustment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.6 or, if appropriate, Condition 5.10.
- 9A.6 Each Note initially delivered with Coupons, Talons or Receipts attached thereto should be presented and, save in the case of partial payment of the Redemption Amount, surrendered for final redemption together with all unmatured Receipts, Coupons and Talons relating thereto, failing which:
- (i) if the Final Terms specifies that this paragraph (i) of Condition 9A.6 is applicable (and, in the absence of specification, this paragraph (i) shall apply to Notes which bear interest at a fixed rate or rates or in fixed amounts) and subject as hereinafter provided, the amount of any missing unmatured Coupons (or, in the case of a payment not being made in full, that portion of the amount of such missing Coupon which the Redemption Amount paid bears to the total Redemption Amount due) (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) will be deducted from the amount otherwise payable on such final redemption, the amount so deducted being payable against surrender of the relevant Coupon at the specified office of any of the Paying Agents at any time within ten years of the Relevant Date applicable to payment of such Redemption Amount;
 - (ii) if the Final Terms specifies that this paragraph (ii) of Condition 9A.6 is applicable (and, in the absence of specification, this paragraph (ii) shall apply to Notes which bear interest at a floating rate or rates or in variable amounts) all unmatured Coupons (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) relating to such Notes (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them;
 - (iii) in the case of Notes initially delivered with Talons attached thereto, all unmatured Talons (whether or not surrendered therewith) shall become void and no exchange for Coupons shall be made thereafter in respect of them; and

- (iv) in the case of Notes initially delivered with Receipts attached thereto, all Receipts relating to such Notes in respect of a payment of an Instalment Amount which (but for such redemption) would have fallen due on a date after such due date for redemption (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them.

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

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

9B *Payments – Registered Notes*

- 9B.1 This Condition 9B is applicable in relation to Registered Notes.
- 9B.2 Payment of the Redemption Amount (together with accrued interest) due in respect of Registered Notes will be made against presentation and, save in the case of partial payment of the Redemption Amount, surrender of the relevant Registered Notes at the specified office of the Registrar or any Transfer Agent. If the due date for payment of the Redemption Amount of any Registered Note is not a Relevant Financial Centre Day (as defined in Condition 9C.3), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day, and from such day and thereafter will be entitled to receive payment by cheque on any Local Banking Day, and, will be entitled to payment by transfer to a designated account on any day which is a Local Banking Day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.6 or, as appropriate, Condition 5.10.
- 9B.3 Payment of amounts (whether principal, interest or otherwise) due (other than the Redemption Amount) in respect of Registered Notes will be paid to the Holder thereof (or, in the case of joint Holders, the first-named) as appearing in the register kept by the Registrar as at opening of business (local time in the place of the specified office of the Registrar) on the fifteenth Relevant Banking Day (as defined in Condition 2.6) before the due date for such payment (the "**Record Date**").
- 9B.4 Notwithstanding the provisions of Condition 9C.2, payment of amounts (whether principal, interest or otherwise) due (other than the Redemption Amount) in respect of Registered Notes will be made in the currency in which such amount is due by cheque, unless prior to the relevant Record Date the Holder thereof (or, in the case of joint Holders, the first-named) has applied to the Registrar and the Registrar has acknowledged such application for payment to be made to a designated account denominated in the relevant currency in which case payment shall be made on the relevant due date for payment by transfer to such account. In the case of payment by transfer

to an account, if the due date for any such payment is not a Relevant Financial Centre Day, then the Holder thereof will not be entitled to payment thereof until the first day thereafter which is a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.6 or, as appropriate, Condition 5.10.

9C *Payments – General Provisions*

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

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

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

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

10. **Prescription**

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

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

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

11.1 The initial Paying Agents, Registrar and Transfer Agents and their respective initial specified offices are specified below. The Calculation Agent in respect of any Notes shall be specified in the Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent (including the Fiscal Agent), the Registrar, any Transfer Agent or the Calculation Agent and to appoint additional or other Paying Agents, another Registrar, additional or other Transfer Agents or another Calculation Agent, **provided that** it will at all times maintain (i) an Fiscal Agent, (ii) in the case of Registered Notes, a Registrar, (iii) a Paying Agent (or in the case of registered Notes, a Transfer Agent) with a specified office in a continental European city, (iv) so long as the Notes are listed on the Luxembourg Stock Exchange and/or any other stock exchange, a Paying Agent and a Registrar or Transfer Agent each with a specified office in Luxembourg and/or in such other place as may be required by the rules of such other stock exchange,

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

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

12. **Replacement of Notes**

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

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

- 13.1 The Fiscal Agency Agreement contains provisions (which shall have effect as if incorporated herein) for convening meetings of the Holders of Notes of any Series to consider any matter affecting their interest, including (without limitation) the modification by Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of these Terms and Conditions and the Deed of Covenant insofar as the same may apply to such Notes. An Extraordinary Resolution passed at any meeting of the Holders of Notes of any Series will be binding on all Holders of the Notes of such Series, whether or not they are present at the meeting, and on all Holders of Coupons relating to Notes of such Series.

- 13.2 The Holders may, by a resolution passed at a meeting of Holders duly convened and held in accordance with the Fiscal Agency Agreement by a majority of at least 50 per cent. in aggregate principle amount of any Series of Notes then outstanding, or by notice in writing to the Issuer (with a copy to the Fiscal Agent) signed by or on behalf of the Holders of at least 50 per cent. in aggregate principal amount of any Series of Notes then outstanding, appoint any person or persons as a committee to represent the interests of the Holders if any of the following events has occurred and has not been remedied or otherwise rectified:

- (i) an Event of Default;
- (ii) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 7 become an Event of Default; or
- (iii) any official public announcement by the Issuer to the effect that the Issuer is seeking, or intends to seek a restructuring of any Series of Notes (whether by amendment, exchange offer or otherwise),

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

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

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

14. Notices

To Holders of Bearer Notes

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

To Holders of Registered Notes

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

www.bourse.lu and, in addition to the foregoing, will be deemed validly given only after the date of such publication.

15. **Further Issues**

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

16. **Currency Indemnity**

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

17. **Waiver and Remedies**

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

18. **Redenomination, Renominalisation and Reconventioning**

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

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

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

- (i) the Notes shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into euro at the rate for conversion of such currency into euro established by the Council of the European Union pursuant to the Treaty

(including compliance with rules relating to rounding in accordance with European Community regulations); **provided, however, that**, if the Issuer determines, with the agreement of the Fiscal Agent, then market practice in respect of the redenomination into euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Holders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;

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

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

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

19. **Governing Law**

19.1 The Notes, the Fiscal Agency Agreement and the Deed of Covenant and all non-contractual obligations arising out of or in connection with them are governed by English law.

20. **Jurisdiction**

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

- 20.2 The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes and agrees not to claim that any such court is not a convenient or appropriate forum.
- 20.3 The Issuer agrees that the process by which any proceedings in England are begun may be served on it by being delivered to the Chief of the Consul Department at the Embassy of the Czech Republic currently located at 26 Kensington Palace Gardens, London W8 4QY. If the appointment of the person mentioned in this Condition 20.3 ceases to be effective, the Issuer shall forthwith appoint a further person in England to accept service of process on its behalf in England and notify the name and address of such person to the Fiscal Agent and, failing such appointment within fifteen days, any Holder of a Note shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent. Nothing contained herein shall affect the right of any Holder of a Note to serve process in any other manner permitted by law.
- 20.4 The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Holders of the Notes or any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by applicable law.
- 20.5 The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings subject, in the case of any property, to the matters specifically provided for in Clause 20.6 below.
- 20.6 To the extent that the Issuer or any of its revenues, assets or properties shall be entitled to any immunity from suit, from the jurisdiction of any such court, from set-off, from attachment prior to judgment, from attachment in aid of execution of judgment, from execution of a judgment or from any other legal or judicial process or remedy, and to the extent that in any such jurisdiction there shall be attributed such an immunity, the Issuer irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction. Such waiver of immunities constitutes only a limited and specific waiver by the Issuer for the purposes of this Agreement and under no circumstances shall it be construed as a general waiver by the Issuer or a waiver with respect to proceedings unrelated to this Agreement. The Issuer does not waive any immunity in respect of property which is ambassadorial, consular or defence real property or buildings or the contents thereof, in each case situated outside the Czech Republic.

PROVISIONS RELATING TO NOTES IN GLOBAL FORM

(A) *Relationship of Accountholders with Clearing Systems*

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

(B) *Exchange of Temporary Global Note*

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

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

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

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

(3) *Delivery:* If:

- (i) a Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 pm (London time) on the seventh day after the bearer of a Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

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

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

(C) ***Exchange of Permanent Global Note***

(1) *Exchange for Definitive Notes:* The Permanent Global Note will become exchangeable in whole, but not in part, for individual Definitive Notes if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business, (b) any of the circumstances described in Condition 7 occurs, or (c) at any time at the request of the registered Holder if so specified in the Final Terms. Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

(2) *Delivery:* If:

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

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 pm (London time) on such thirtieth day (in the case of (i) above) or at 5.00 pm (London time) on such due date (in the case of (ii) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system as being entitled to an interest in a Permanent Global

Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system.

(D) *Exchange of Global Registered Notes*

- (1) *Global Registered Note*: Registered Notes held in Euroclear and/or Clearstream, Luxembourg (or other clearing system) will be represented by a Global Registered Note which will be registered in the name of a nominee for, and deposited with, a common depository for, or if the Global Registered Note is to be held under NSS, will be registered in the name of and deposited with a common safekeeper for, Euroclear and Clearstream, Luxembourg (or such other relevant clearing system).
- (2) *Exchange for Registered Notes*: The Global Registered Note will become exchangeable in whole, but not in part, for individual Registered Notes if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business, (b) any of the circumstances described in Condition 7 occurs, or (c) at any time at the request of the registered Holder if so specified in the Final Terms.
- (3) *Delivery*: Whenever the Global Registered Note is to be exchanged for Registered Notes, such Registered Notes will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Note within five business days of the delivery, by or on behalf of the registered Holder of the Global Registered Note, Euroclear and/or Clearstream, Luxembourg, to the Registrar or the Transfer Agent (as the case may be) of such information as is required to complete and deliver such Registered Notes (including, without limitation, the names and addresses of the persons in whose names the Registered Notes are to be registered and the principal amount of each such person's holding) against the surrender of the Global Registered Note at the Specified Office of the Registrar or the Transfer Agent (as the case may be). Such exchange will be effected in accordance with the provisions of the Fiscal Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar or the Transfer Agent (as the case may be) may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

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

(E) *Amendment to Conditions*

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

- (1) *Meetings:* The holder of a Permanent Global Note or of the Notes represented by a Global Registered Note shall (unless such Permanent Global Note or Global Registered Note represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of holders and, at any such meeting, the holder of a Permanent Global Note shall be treated as having one vote in respect of each minimum Denomination of Notes for which such Global Note may be exchanged. (All holders of Registered Notes are entitled to one vote in respect of each Note comprising such holder's holding, whether or not represented by a Global Registered Note).
- (2) *Cancellation:* Cancellation of any Note represented by a Permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Permanent Global Note.
- (3) *Purchase:* Notes represented by a Permanent Global Note may only be purchased by the Issuer if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.
- (4) *Issuer's Options:* Any option of the Issuer provided for in the Conditions of the Notes while such Notes are represented by a Permanent Global Note or a Global Registered Note shall be exercised by the Issuer giving notice to the holders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the partial redemption will be effected in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion).
- (5) *Holder's Options:* Any option of the holders provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note or a Global Registered Note may be exercised by the Holder of such Permanent Global Note or Global Registered Note, giving notice to the Fiscal Agent within the time limits relating to the deposit of Notes with a Paying Agent or the Registrar, in the case of a Global Registered Note substantially in the form of the notice available from any Paying Agent (or the Registrar, in the case of a Global Registered Note), except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the principal amount of Notes in respect of which the option is exercised and at the same time presenting for notation the Permanent Global Note or the Global Registered Note to the Fiscal Agent, or to a Paying Agent acting on behalf of the Fiscal Agent, (or the Registrar, in the case of a Global Registered Note).
- (6) *Notices:* Notwithstanding Condition 14, while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Registered Note and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) or the Global Registered Note is deposited with a depository or a common depository for Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system or a Common Safekeeper, notices to the Holders of Notes of that Series may be given by delivery of the relevant notice to Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Holders of the Notes in accordance with Condition 14 on the date of delivery to Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system **provided, however, that** so long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) and/or published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

(7) *Payment Record Date:* Each payment in respect of a Global Registered Note will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Registered Note is being held is open for business.

(F) *Partly Paid Notes*

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

FORM OF FINAL TERMS

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

Final Terms dated [•]

The Czech Republic
acting through the Ministry of Finance

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

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

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Offering Circular dated 10 February 2012. These Final Terms contain the final terms of the Notes and must be read in conjunction with such Offering Circular.

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

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "**Conditions**") set forth in the Offering Circular dated 10 February 2012. These Final Terms contain the final terms of the Notes and must be read in conjunction with the Offering Circular dated 10 February 2012 [and the supplemental Offering Circular dated [•]], save in respect of the Conditions which are extracted from the Offering Circular dated [•] and are attached hereto.]

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

PART A – CONTRACTUAL TERMS

1. Issuer: The Czech Republic, acting through the Ministry of Finance
2. [(i)] Series Number: [•]
[(ii)] Tranche Number: [•]
(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3. Specified Currency or Currencies: [•]
4. Aggregate Principal Amount: [•]
[(i)] Series: [•]
[(ii)] Tranche: [•]
5. Issue Price: [•] per cent. of the Aggregate Principal Amount [plus accrued interest from *[insert date]* (if applicable)]
6. (i) Specified Denominations: [•]
[Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).]

(ii) Calculation Amount: [•]
(If only one Specified Denomination, insert Specified Denomination. If more than one Specified Denomination, insert the highest factor. N.B. There must be a common factor in the case of two or more Specified Denominations)
7. [(i)] Issue Date: [•]
[(ii)] Interest Commencement Date: [Specify/Issue Date/Not Applicable]
8. Maturity Date: [•] *[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*

[If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available.]

9. Interest Basis: [[•] per cent. Fixed Rate]
 [[specify reference rate] +/- [•] per cent.
 Floating Rate]
 [Index-Linked]
 [Zero Coupon]
 [Other (specify)]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
 [Index Linked Redemption]
 [Dual Currency]
 [Partly Paid]
 [Instalment]
 [Other (specify)]
11. Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
12. Put/Call Options: [Investor Put]
 [Issuer Call]
 [(further particulars specified below)]
13. [i] Status of the Notes: Senior
- [ii] Date approval for issuance of Notes obtained: [•]
- (N.B. Only relevant where authorisation is required for the particular tranche of Notes.)*
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Notes Provisions: [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [•] per cent., per annum [payable [annually/semi-annually/quarterly/monthly/other (specify)] in arrears]
- (ii) Interest Payment Date(s): [•] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/not adjusted]
- (iii) Fixed Coupon Amount[(s)]: [•] per Calculation Amount
- (iv) Broken Amount(s): [•] per Calculation Amount payable on the Interest Payment Date falling [in/on] [•]
- (v) Day Count Fraction: [30/360 / Actual/Actual (ICMA/ISDA)/other]
- (vi) [Determination Dates: [•] in each year *(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))*]

- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/*give details*]
16. Floating Rate Notes Provisions: [Applicable/Not applicable] [*If not applicable, delete the remaining sub-paragraphs of this paragraph.*]
- (i) Interest Period(s): [•]
- (ii) Specified Interest Payment Dates: [•]
- (iii) First Interest Payment Date: [•]
- (iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
- (v) Business Centre(s): [•]
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ ISDA Determination/other (*give details*)]
- (vii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]): [•]
- (viii) Screen Rate Determination:
- Reference Rate: [•]
 - Interest Determination Date(s): [•]
 - Relevant Screen Page: [•]
- (ix) ISDA Determination:
- Floating Rate Option: [•]
 - Designated Maturity: [•]
 - Reset Date: [•]
- (x) Margin(s): [+/-][•] per cent. per annum
- (xi) Minimum Rate of Interest: [•] per cent. per annum
- (xii) Maximum Rate of Interest: [•] per cent. per annum
- (xiii) Day Count Fraction: [•]
- (xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on [•]

Floating Rate Notes, if different from those set out in the Conditions:

17. Zero Coupon Note Provisions: [Applicable/Not Applicable] *[If not applicable, delete the remaining sub-paragraphs of this paragraph]*
- (i) [Amortisation/Accrual] Yield: [•]
- (ii) Reference Price: [•]
- (iii) Any other formula/basis of determining amount payable: [•]
18. Index-Linked Interest Note Provisions: [Applicable/Not Applicable] *[If not applicable, delete the remaining sub-paragraphs of this paragraph]*
- (i) Index/Formula/other variable: [give or annex details]
- (ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Fiscal Agent]): [[•] shall be the Calculation Agent (no need to specify if the Fiscal Agent is to perform this function)]
- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [•]
- (iv) Determination Date(s): [•]
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [•]
- (vi) Interest or calculation period(s): [•]
- (vii) Specified Interest Payment Dates: [•]
- (viii) Business Day Convention: [Floating Rate Convention / Following Business Day Convention / Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
- (ix) Relevant Financial Centre: *[The financial centre most closely connected to the Index - specify if not London]*
- (x) Minimum Rate/Amount of Interest: [•] per cent. per annum
- (xi) Maximum Rate/Amount of Interest: [•] per cent. per annum

- (xii) Day Count Fraction: [•]
- 19. Dual Currency Note Provisions: [Applicable/Not Applicable] *[If not applicable, delete the remaining sub-paragraphs of this paragraph]*
 - (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
 - (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the [Fiscal Agent]): [[•] shall be the Calculation Agent (no need to specify if the Fiscal Agent is to perform this function)]
 - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [•]
 - (iv) Person at whose option Specified Currency(ies) is/are payable: [•]

PROVISIONS RELATING TO REDEMPTION

- 20. Call Option: [Applicable/Not Applicable] *[If not applicable, delete the remaining subparagraphs of this paragraph]*
 - (i) Call Option Date(s)/Call Option Period: [•]
 - (ii) Early Redemption Amount (Call) [•] per Calculation Amount Amount(s) of each Note and method, if any, of calculation of such amount(s): [•]
 - (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: [•] per Calculation Amount
 - (b) Maximum Redemption Amount: [•] per Calculation Amount
 - (iv) Notice period: [•]
- 21. Put Option: [Applicable/Not Applicable] *[If not applicable, delete the remaining subparagraphs of this paragraph]*
 - (i) Put Option Date(s)/Put Option Period: [•]
 - (ii) Early Redemption Amount(s) (Put) of each Note and method, if any, of calculation of such amount(s): [•] per Calculation Amount
 - (iii) Notice period: [•]

22. Final Redemption Amount of each Note: [•] per Calculation Amount

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

(i) Index/Formula/variable: [give or annex details]

(ii) Party responsible for calculating the Final Redemption Amount (if not the [Agent]): [•]

(iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [•]

(iv) Determination Date(s): [•]

(v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [•]

(vi) Payment Date: [•]

(vii) Minimum Final Redemption Amount: [•] per Calculation Amount

(viii) Maximum Final Redemption Amount: [•] per Calculation Amount

23. Early Redemption Amount [•]

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

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note.]

[Temporary Global Note exchangeable for Definitive Notes on [•] days' notice.]

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the

Permanent Global Note].

[Global Registered Note exchangeable for individual Registered Notes on [*] days' notice/at any time/in the limited circumstances described in the Global Registered Note

[and Global Registered Note [(Euro [*] nominal amount)] registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the New Safekeeping Structure (NSS))]]

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

DISTRIBUTION

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

PURPOSE OF FINAL TERMS

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

RESPONSIBILITY

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

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

By:
Duly authorised

PART B - OTHER INFORMATION

1. LISTING

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

2. RATINGS

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

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

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

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

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

- [(i)] Reasons for the offer: [•]
- [(ii)] Estimated net proceeds: [•]

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

5. [Fixed Rate Notes only – YIELD]

- Indication of yield: [•]

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

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

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to

include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]

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

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

8. **OPERATIONAL INFORMATION**

ISIN Code: [•]

Common Code: [•]

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

Delivery: Delivery [against/free of] payment

Names and addresses of initial Paying Agent(s): [•]

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

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

USE OF PROCEEDS

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

THE CZECH REPUBLIC

Geography and Population

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

The Czech Republic covers an area of approximately 30,500 square miles and its population is estimated to be approximately 10.5 million. Approximately one quarter of the population of the Czech Republic lives in the country's five largest cities, the largest of which is Prague, the Czech capital, with an estimated population of approximately 1.26 million. Two other cities have populations in excess of 300,000.

The Czech Republic is an ethnically homogenous country. Approximately 94.2 per cent. of the population is ethnically Czech and speaks Czech. Ukrainians and Slovaks constitute the largest minority groups, numbering approximately 106,040 persons and 80,967 persons, respectively. According to the 2001 census, 59 per cent. of the country is agnostic, atheist or non-believer, 26.8 per cent. is Roman Catholic and 2.5 per cent. is Protestant.

History

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

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

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

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

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

In April 1990, Czechoslovakia was renamed the Czech and Slovak Federal Republic (the "CSFR"), in formal recognition of the functional autonomy of the two republics. Initially, collaboration between the republics proved to be successful, ensuring broad support for the intensive reform programmes launched in 1991. However, by mid-1992, coalition building between the republics had become increasingly difficult and the complex parliamentary rules of the CSFR threatened to paralyse the political process. On 25 November 1992, the Federal Assembly enacted a law dissolving the CSFR. Based on this law, the Czech Republic and the Slovak Republic became formally independent states on 1 January 1993.

Legally, each republic became a successor to the CSFR, and federal property was divided on a two-to-one ratio (Czech Republic to Slovak Republic), reflecting the relative size of the republics' populations and economies. Separate monetary systems and currencies were introduced by each republic in February 1993.

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

The Czech Political System

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

Parliament

Pursuant to the Constitution, the Parliament of the Czech Republic consists of two chambers: a Chamber of Deputies with 200 members and a Senate with 81 members. The members of the Chamber of Deputies are elected for four-year terms by proportional representation from 14 voting districts, which are identical to the country's administrative regions. The members of the Senate are elected in single-seat constituencies with each constituency being roughly the same size. The members of the Senate are generally elected for six-year terms, with one-third of the total number of the Senate's seats elected every two years.

Amendments to the Constitution and certain other legislative acts require the consent of both the Chamber of Deputies and the Senate. The Senate has the power to review the legislation passed by the Chamber of Deputies (except for acts approving the state budget and final state accounts, which are only approved by the Chamber of Deputies). The Chamber of Deputies can override a bill vetoed by the Senate by a vote of 101 Deputies. The Senate, unlike the Chamber of Deputies, cannot be dissolved. The Senate was initially formed and Senators elected in November 1996.

Government

The Government is the executive branch of government in the Czech Republic and currently consists of 15 ministers (the "**Ministers**"), including the Prime Minister, who is the head of the Government. The Prime Minister and other Ministers are appointed by, and in certain circumstances may be dismissed by, the President.

President

The President of the Czech Republic is the head of state and is selected by a joint session of both chambers of the Parliament. The President's term of office is five years, and the President may serve a maximum of two successive terms in office. Presidential authority is limited, but the President can dissolve the Chamber of Deputies under certain limited circumstances. The President may also veto a law, other than constitutional acts, passed by the Parliament; the Presidential veto can be overridden by a vote of 101 Deputies. In addition to appointing (and in certain circumstances dismissing and accepting the resignation of) the Prime Minister and other Ministers, the President also appoints justices of the Constitutional Court and judges of other courts; grants pardons for criminal acts; appoints the President and Vice-president of the Supreme Auditing Office; and appoints members of the Board of the Czech National Bank (the "**Czech National Bank**" or the "**CNB**"). Certain acts of the President are subject to the consent of the Government, including acts taken in the representation of the state in foreign relations, negotiation and ratification of international treaties, the appointment of judges and the declaration of amnesties.

In December 2011, the Chamber of Deputies approved an amendment to the Czech Constitution pursuant to which the President would be elected in direct elections. In February 2012, the amendment was approved by the Senate and will become effective as of 1 October 2012.

Judiciary

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

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

The general courts are independent of other state authorities. They decide on all civil law and criminal law matters and examine the legitimacy of administrative bodies' decisions. The Supreme Court, the Supreme Administrative Court, Superior Courts and Regional Courts have limited appellate and original jurisdiction. The Supreme Court, the Supreme Administrative Court and the Superior Courts exercise their original jurisdiction only in a limited number of cases. All judges of the general courts serve for life after appointment by the President. Judgments are declared in the name of the Czech Republic and always publicly. Judges are independent in their decision-making, they are bound only by law and international agreements which form a part of Czech law, and have the power to consider whether generally binding legal regulations other than laws are compatible with the laws or such international agreements.

As from 1 May 2004, judgments obtained in the courts of another EU Member State are enforceable in the Czech Republic without review as to their substance, subject to their being declared enforceable upon application for such a declaration being made by an interested party.

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

Public Defender of Rights

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

Local Government

There is currently a two-tier system of local government in the Czech Republic, consisting of 14 regional and over 6,000 municipal authorities. Regional authorities have the authority to impose local levies within the limits established by law. Municipal authorities, in common with regional governments and the national Government, have the power to regulate, inter alia, transportation and education.

Recent Political Developments

President

The current President, Václav Klaus, was re-elected for his second five-year term in February 2008. In 2003, he replaced the previous president and long-standing leader from the times of the Velvet Revolution, Václav Havel. Václav Klaus was one of the founding members of the Civic Democratic Party (the "ODS") and served in a number of important public offices including the posts of the Federal

Minister of Finance (1989-91), Prime Minister of the Czech Republic (1992-97) and Chairman of the Chamber of Deputies (1998-2002).

Chamber of Deputies

The elections for the Chamber of Deputies held in May 2010 brought a victory for the Czech Social Democratic Party (the "CSSD") with 22.1 per cent. of the vote, followed by ODS with 20.2 per cent. of the vote, TOP 09 with 16.7 per cent. of the vote, the Communist Party (the "KSCM") with 11.3 per cent. of the vote and the Public Affairs Party (the "VV") with 10.9 per cent. of the vote.

Members of the Chamber of Deputies are elected as candidates of the respective political parties and, upon their election to the Chamber of Deputies, they form political clubs. The following table shows the current breakdown of the distribution of seats in the Chamber of Deputies by political clubs:

Political Club	Number of Deputies
Czech Social Democratic Party (CSSD).....	55
Civic Democratic Party (ODS).....	52
TOP 09 and the Mayors	41
Communist Party (KSCM).....	26
Public Affairs Party (VV).....	21
Deputies not participating in any club	5
Total	200

Source: The Parliament, Chamber of Deputies.

Senate

In October 2010, the Senate elections for the purposes of electing one third of the members of the Senate took place in the Czech Republic. In these elections, the then opposition party CSSD won 11 out of the 27 contested seats. The next Senate elections, for the purposes of electing another one third of the members of the Senate, are scheduled to take place in 2012.

Senators are elected as candidates of the respective political parties and, upon their election to the Senate, they form political clubs. The following table provides a breakdown of the current seats in the Senate by political clubs:

Political Club	Senate Seats
Civic Democratic Party (ODS).....	25
Czech Social Democratic Party (CSSD).....	41
Christian Democratic Party – Czechoslovak People's Party (KDU- CSL)	6
TOP 09 and the Mayors	5
Senators not participating in any club	4
Total	81

Source: The Parliament, the Senate.

Government

On 28 June 2010, following the elections for the Chamber of Deputies held in May 2010, the President appointed Mr. Petr Necas, the leader of the ODS, as the Prime Minister, and entrusted him with establishment of a new Government. On 13 July 2010 the President appointed the new coalition Government led by Mr. Necas and formed by representatives of the ODS, the TOP 09 and the VV pursuant to a coalition agreement entered into among these three parties (the "Coalition Agreement"). The Chamber of Deputies approved the coalition Government by passing a vote of "confidence" on 10 August 2010. At the date of this Offering Circular, members of the coalition Government have 114 out of 200 seats in the Chamber of Deputies.

Local Government

The last ordinary regional and municipal elections took place in October 2008 and October 2010, respectively. The regional elections in October 2008 brought victory for the CSSD in all 13 contested regions. In the remaining region, Prague, regional elections took place in October 2010 and brought victory for the TOP 09. The next ordinary regional elections are scheduled to be held in 2012 (excluding the region of Prague), and the ordinary municipal elections as well as the regional elections in Prague are scheduled for 2014.

International Relations

The Czech Republic became a member of the United Nations in January 1993, as a successor to Czechoslovakia, which had been a member since 1945. In the same year, the Czech Republic also became a member of the Council of Europe. The Czech Republic belongs to an array of international organisations and, in 2010, it maintained diplomatic relations with 195 countries. In 1995, the Czech Republic became a member of the Organization for Economic Cooperation and Development ("OECD"). The Czech Republic is a member of the International Monetary Fund ("IMF"), the International Bank for Reconstruction and Development (part of the World Bank group) ("IBRD"), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), the European Bank for Reconstruction and Development ("EBRD") and the World Trade Organisation ("WTO"), which is based on the General Agreement on Tariffs and Trade (GATT), and International Development Association (IDA).

The Czech Republic has been a full member of NATO since 12 March 1999.

European Union Membership

The Czech Republic joined the European Union on 1 May 2004.

The first elections of the Czech Republic's members to the European Parliament took place in June 2004, where the Czech Republic had 24 seats. The second elections of the Czech Republic's members to the European Parliament took place in June 2009. In 2009, the number of the Czech Republic's seats in the European Parliament was decreased to 22. The elections brought victory for the ODS, with 31.45 per cent. of the vote, followed by the CSSD with 22.38 per cent., the KSCM with 14.18 per cent. and the Christian Democratic Party-Czechoslovak People's Party with 7.64 per cent. of the vote.

The following table shows a breakdown of the distribution of seats for the Czech Republic in the European Parliament resulting from the 2009 elections:

	<u>European Parliament</u>
Civic Democratic Party (ODS).....	9
Czech Social Democratic Party (CSSD).....	7
Communist Party (KSCM).....	4
Christian Democratic Party-Czechoslovak People's Party (KDU-CSL).....	2
Total	22

Source: European Parliament.

As an EU member state, the Czech Republic is subject to multilateral surveillance by the EU's Council. The Czech Republic is obliged to prepare an annual Convergence Program covering fiscal policy, the main assumptions underlying its economic outlook and an assessment of economic policy measures and their budgetary impact. This information must cover the current and previous year and include forecasts for at least the next three years.

An area of focus during the first years of the Czech Republic's membership in the EU has been the effective implementation of EU-financed projects in accordance with the treaty concerning the accession of the Czech Republic to the EU. Such financing reflects the EU principle of European solidarity, which aims to help less developed EU countries bridge the gap between the economic and social development of more affluent EU member states and their own.

Since its accession to the EU in 2004, the Czech Republic has been obliged to make annual payments to the EU budget on a basis comparable to that of other EU Member States. The Czech Republic also receives significant funds from the EU budget.

The following table sets forth information concerning the inflow of EU funds to the Czech Republic for the periods indicated.

	2008	2009	2010	2011
	<i>(EUR millions)</i>			
Pre-accession funds.....	24.5	29.2	22.9	(0.1)
Funds related to structural actions.....	1,680.1	1,962.8	2,192.9	1,767.5
Cohesion Fund	595.4	723.9	586.7	40.7
Structural Funds	1,084.7	1,239.0	1,606.1	1,726.8
Common Agricultural Policy	584.2	876.0	1,042.0	1,076.4
Internal Policy.....	85.6	83.0	103.9	104
Compensation	0.0	0.0	0.0	0.0
Total.....	2,375.0	2,951.1	3,361.7	2,947.9

Source: Ministry of Finance.

The following tables set forth certain information concerning the contributions by the Czech Republic to the EU budget for the periods indicated.

	2008	2009	2010	2011
	<i>(EUR millions)</i>			
Payments related to Gross National Income.....	989.0	1,012.7	1,094.9	1,270.2
Payments related to value added tax	224.7	174.2	182.6	207.4
Traditional own resources	207.6	167.9	189.5	220.3
Total.....	1,421.2	1,354.8	1,467.0	1,697.8

Source: Ministry of Finance.

On 21 December 2007, the Czech Republic acceded (with the exception of international airports) to the Schengen system, which enables a higher degree of free movement of individuals among the participating states and regulates the protection of common external borders. With respect to international airports, the Czech Republic acceded to the Schengen system and abolished controls in March 2008.

Legal Proceedings

The Czech Republic is involved in an ongoing dispute with Diag Human SE, a Liechtenstein-based blood plasma trading company. On 4 August 2008, in an arbitration with seat in the Czech Republic and proceeding under Czech law, Diag Human SE obtained an arbitral award ordering the Czech Republic to pay to Diag Human SE a sum of approximately CZK 8.33 billion in damages and in interest accrued as of 30 June 2007. Since the Czech Republic was also ordered to pay interest accruing from July 2007 until payment, the total sum payable by the Czech Republic to Diag Human SE amounts to approximately CZK 10 billion as of the date of this Offering Circular.

The Czech Republic has applied for a review of the arbitral award by a second arbitral tribunal (as contemplated by the arbitration agreement concluded with Diag Human SE) and as at the date of this Offering Circular, these review proceedings have not yet commenced. During the period since the award in 2008, Diag Human SE has sought to enforce the arbitral award by attempting to seize assets of the Czech Republic in various jurisdictions in Europe, as well as in the United States. The Czech Republic continues to resist Diag Human SE's attempts to enforce the award and maintains that, pending conclusion of the review process by the second arbitral tribunal, the arbitral award is not binding. As at the date of this Offering Circular, Diag Human SE has not been successful in seizing any assets of the Czech Republic or enforcing the award.

In 2011, the Czech Republic received numerous notices of disputes for allegedly breaching its obligations under bilateral investment protection treaties by imposing solar energy taxes and other such related measures. The damages claimed have not been quantified in the notices.

THE CZECH ECONOMY

Background

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

Prior to 1990, the Czechoslovakia's economic structure was focused primarily on heavy industry and lacked developed services and financial sectors. The new post-communist CSFR government elected in 1990 sought to establish a free market economy, implement extensive privatisation of state owned enterprises, open foreign trade, unify exchange rates, encourage competition and establish a legal framework that would permit the development of a conventional commercial sector. Successive new governments permitted foreign investment and maintained relatively strict fiscal and monetary policies. However, the collapse of the Soviet Union led to a significant contraction in the Czech Republic's main export markets, causing significant economic disruption throughout the country.

The Czech economy began to grow again in 1993 and the growth rate peaked at 5.9 per cent. in 1995 driven by strong domestic demand. In the late 1990s, development was affected by two factors: difficulties in the state-owned banking sector and the Russian financial crisis. This resulted in negative growth rates in 1997 and 1998. The Czech economy experienced robust growth beginning in 2000, with GDP growing at an average annual rate at or above 1.9 per cent. during each of the years 2000 to 2008, when the Czech economy started to be adversely influenced by effects of the global financial and economic crisis.

Since 2003, the trade balance of the Czech Republic has been steadily improving. The Czech Republic has been recording a foreign trade surplus since 2004, when the volume of exports exceeded the volume of imports for the first time. Foreign direct investment ("FDI") has had a strong influence on the Czech economy since 2000. The banking sector has been privatised and foreign financial institutions now own a large majority of banks providing services in the Czech Republic. Furthermore, the Czech Republic has seen strong inflows into new production capacity, particularly in the manufacturing sector. Czech koruna has strengthened against euro at an average annual rate of 2 per cent. over the last ten years.

Recent Trends in the Economy

The global financial and economic crisis has affected the domestic economy particularly through the channel of foreign trade. Its effects were most pronounced in the final quarter of 2008 and the whole of 2009, when economic output decreased, unemployment increased and inflation declined markedly. The Czech economy emerged from recession in the third quarter of 2009. In 2010, real GDP increased by 2.7 per cent. compared to 2009. In the third quarter of 2011, real GDP increased by 1.2 per cent. compared to the third quarter of 2010. According to the estimate of the Ministry of Finance, real GDP increased in 2011 by 1.8 per cent. compared to 2010. The increase in real GDP growth in 2011 was principally due to net exports (difference between exports and imports of goods and services).

Foreign trade recovered from the recession in late 2009 and both exports and imports increased in 2010. In 2011, exports and imports had already exceeded the pre-recession level reached in 2008. During the third quarter of 2011, the current account had a deficit of 2.8 per cent. of GDP mostly due to income outflow (dividends and reinvested earning) as a consequence of previous inflow of FDI. After a significant drop in FDI inflow to the Czech Republic in 2009, the Czech Republic has seen positive signs of recovery in 2010, however, the total FDI inflow to the Czech Republic in the nine months ending 30 September 2011 amounted to CZK 64.5 billion, which was approximately CZK 74 billion lower than the result for the nine months ending 30 September 2010.

Pursuant to the policy statement of the coalition Government dated 4 August 2010 (the "**Policy Statement**"), the coalition Government plans to introduce a number of measures with the aim of supporting the economy. Such measures include, among others, implementation of tax reforms to simplify the tax system, implementation of labour law reforms to increase labour market flexibility and

provide incentives to businesses to create new jobs and implementation of measures to support construction of transport infrastructure and exports. There can be no assurance that the reforms will be successful or that the coalition Government will fulfil these plans.

Gross Domestic Product

The following table sets out the GDP of the Czech Republic in current prices for the years ended 31 December 2008 to 2011, indicated both as a total and per capita:

	Year ended 31 December			
	2008	2009	2010	2011 ⁽¹⁾
GDP total				
Nominal GDP (CZK billions).....	3,848.4	3,739.2	3,775.2	3,833.0
Nominal GDP (EUR billions).....	154.3	141.4	149.3	153.5
GDP per capita				
Nominal GDP (CZK thousands).....	369.0	356.4	359.0	363.3
Nominal GDP (EUR thousands).....	14.8	13.5	14.2	14.8
Nominal GDP (EUR thousands) ⁽²⁾	20.2	19.3	19.4	19.9
Nominal GDP (per cent of 27 EU countries average) ⁽²⁾	81	82	80	N/A*

Source: Czech Statistical Office, Eurostat, Ministry of Finance. Certain numbers were restated retroactively.

⁽¹⁾ Ministry of Finance estimate.

⁽²⁾ In Purchasing Power Parity terms.

* Data not available as of the date of this Offering Circular.

Real GDP grew steadily from 2000 until 2007 mainly due to the improving institutional environment, the absence of trade barriers after the EU entry in 2004 and large inflow of FDI into services and production capacities. The GDP growth slowed down significantly in 2008 following the onset of the global financial crisis. In 2008, GDP grew 3.1 per cent. year-on-year.

The Czech economy experienced a recession from the fourth quarter of 2008 to the second quarter of 2009, with sizeable quarter-on-quarter decreases in seasonally adjusted real GDP peaking in the first quarter of 2009 (by 3.3 per cent.). These decreases were driven mainly by the low external demand of the Czech Republic's main trading partners. Overall, in 2009 annual real GDP decreased by 4.7 per cent. compared to 2008.

In 2010, the Czech economy sustained the growth tendency of the last two quarters of 2009, with an annual real GDP increasing by 2.7 per cent. compared to 2009. The principal factor contributing to the growth was the recovery in the external demand of the Czech Republic's main trading partners and Germany in particular. The main contributor to the 2010 growth of GDP was the manufacturing sector, including the automotive industry, helped by car-scrap subsidies in various European countries.

In 2011, the growth of the Czech economy slowed down. According to the Czech Statistical Office, real GDP in the first quarter of 2011 increased by 0.6 per cent., which was followed by an increase of 0.2 per cent. in the second quarter of 2011 and a decrease of 0.1 per cent. in the third quarter of 2011, in each case quarter-on-quarter (seasonally adjusted). The principal factor contributing to the slowdown was the decrease in investment activity and consumer demands mainly due to fiscal restrictions (i.e. cuts in government spending) and a weak labour market (e.g. unemployment, slow wage growth). The tax increases driven by the Government's effort to manage its budget deficit and the heightened uncertainty surrounding the debt crisis in the euro zone have further reduced appetite for credit and have affected consumers' spending power.

The outlook of the Czech economy depends on the economic cycle in Europe and particularly Germany due to the dependence on external demand and the continuing weakness of domestic demand. According to the current official estimates of the Ministry of Finance, annual real GDP is projected to increase by 0.2 per cent. in 2012 compared to 2011 and by 1.6 per cent. in 2013 compared to 2012. The forecast of annual real GDP is based on the assumption of further escalation of problems in the euro zone and worsened macroeconomic perspectives of the main trading partners of the Czech Republic. The actual

level of annual real GDP for 2012 and 2013 may be materially different from the projected levels as a result of various external and internal factors.

The following table sets out the structure of real GDP growth for the years ended 31 December 2008 to 2011:

	Year ended 31 December			
	2008	2009	2010	2011 ⁽¹⁾
	<i>(per cent. year-on-year)</i>			
Real GDP ⁽²⁾	3.1	(4.7)	2.7	1.8
Consumer demand	2.8	(0.4)	0.6	(0.4)
Government demand.....	1.2	3.8	0.6	(2.3)
Gross investments.....	1.9	(20.8)	5.9	(1.2)
Real exports of goods and services	4.0	(10.0)	16.4	11.6
Real imports of goods and services.....	2.7	(11.6)	16.0	7.9

Source: Czech Statistical Office, Ministry of Finance.

⁽¹⁾ Ministry of Finance estimate.

⁽²⁾ Chain-linking method is used for calculation of real GDP growth rates.

Foreign trade is a positive factor for the economic development of the Czech Republic. Both export and import volumes increased in real terms by approximately 16 per cent. in 2010 compared to 2009. In 2011, according to the estimate of the Ministry of Finance, exports increased in real terms by 11.6 per cent. and imports increased in real terms by 7.9 per cent., due to growth in demand for machine production, particularly road vehicles, electrical machinery, general industrial machinery and equipment and computer equipment. In the third quarter of 2011, export volumes exceeded 80 per cent. of GDP.

The following table sets out a breakdown of the sources of GDP by sectors of gross value added ("GVA") in current prices for the years ended 31 December 2008 to 2010 and for each of the first three quarters of 2011:

	Year ended 31 December			2011 ⁽¹⁾		
	2008	2009	2010	1Q	2Q	3Q
	<i>(CZK billions)</i>					
Agriculture, forestry and fishing	80.3	64.2	57.1	15.9	15.3	18.7
Manufacturing, mining and quarrying and other industry	1,085.5	1,018.5	1,031.8	263.7	267.5	266.4
Construction.....	235.7	238.4	245.8	57.4	57.3	56.3
Trade, transportation, accommodation and food service.....	701.9	648.1	656.5	163.7	165.2	163.4
Information and communication	177.2	176.3	174.1	43.1	43.0	42.6
Financial and insurance activities	139.3	149.2	158.9	41.6	39.7	43.1
Real estate activities.....	230.5	235.6	237.0	58.7	57.9	58.8
Professional scientific, technical and administrative activities	249.0	233.9	238.2	58.7	58.7	58.0
Public administration education, health and social work	502.6	527.2	524.3	132.5	131.9	133.0
Other service activities.....	78.0	79.0	81.0	20.6	20.1	20.3
GVA at basic prices	3,480.0	3,370.5	3,405.0	855.9	856.6	860.6
Taxes on products	405.0	410.8	417.5	107.3	108.5	108.6
Subsidies on products	36.5	42.1	46.9	11.6	11.2	11.5
GDP at purchaser prices	3,848.4	3,739.2	3,775.2	951.6	953.9	957.8

Source: Czech Statistical Office. Certain numbers were restated retroactively.

⁽¹⁾ Preliminary data (seasonally adjusted).

The largest part of the manufacturing sector is represented by the automotive industry consisting of the manufacturing of cars and automotive parts, with Skoda Auto being the largest car manufacturer in the country. As a result of the ongoing global financial and economic crisis, the Czech automotive industry experienced a marked slowdown in the last quarter of 2008 and the first quarter of 2009. In 2010, the Czech automotive industry has begun to recover. According to the Czech Automobile Industry Association, the production of motor vehicles in 2010 increased by 9.47 per cent. compared to 2009, reaching almost 1.1 million motor vehicles produced. The increase in 2010 was mainly driven by a growth in exports but a significant increase was also recognised in domestic sales. According to the Czech Automobile Industry Association, 1.2 million motor vehicles were produced in 2011, representing an increase by 11.5 per cent. compared to 2010.

Inflation

The Czech economy is a relatively low-inflationary economy. Since 2002, consumer price inflation ("CPI") has been within the range of 1 to 3 per cent. year-on-year, with the exception of year 2008. In March 2007, the CNB set 2 per cent. inflation target with a tolerance band of one percentage point in either direction, with effect from January 2010.

The following table sets out the average annual rates of CPI and the inflation rate as an increase in CPI (compared to the corresponding month of the preceding year) as well as the producer price index ("PPI") (compared to the preceding year) for 2008 to 2011:

	Year ended 31 December			
	2008	2009	2010	2011
	<i>(per cent. year-on year)</i>			
CPI	6.3	1.0	1.5	1.9
Inflation rate.....	3.6	1.0	2.3	2.4
PPI.....	4.5	(3.1)	1.2	5.6

Source: Czech Statistical Office, CNB.

In 2008, CPI was 6.3 per cent. mainly due to demand-side inflationary pressure, rising commodity prices, deregulation and the value added tax ("VAT") increase. In 2009, CPI decreased to 1.0 per cent year-on-year when global recession reversed the previous inflationary pressures. CPI increased to 1.5 per cent year-on-year in 2010 and further to 1.9 per cent. year-on-year in 2011, mainly due to indirect tax increases and rising commodity prices.

Since 2002, the Czech Republic's inflation rate and the CNB's key policy rate have not differed significantly from the inflation rate of the euro zone and the European Central Bank's (the "ECB") key policy rate despite a stronger economic growth in the Czech Republic than in the euro zone due to a long-term appreciation of Czech koruna against euro. The long-term appreciation has resulted in the increasing price level in the Czech Republic compared to the euro zone without materially higher inflation.

According to the Czech Statistical Office, the average annual PPI increased by 5.6 per cent. in 2011 compared to 2010. This increase was driven mainly by a significant rise in commodity prices on global markets towards the end of 2010 and in the first half of 2011.

The Ministry of Finance forecasts that CPI will increase to 3.2 per cent. in 2012 mainly due to the VAT increase. The actual level of year-on-year CPI in 2012 may materially differ from the forecast as a result of various external and internal factors.

Wages and the Labour Market

Wages

The following table sets out information on the average nominal and real monthly wages in the Czech economy for the years ended 31 December 2008 to 2011:

	Year ended 31 December			
	2008	2009	2010	2011 ⁽¹⁾
Average nominal monthly wage (CZK)	22,592	23,344	23,797	24,300
Change in nominal monthly average wage (per cent.).....	7.8	3.3	1.9	2.2
Average nominal monthly wage (EUR)	906	883	941	988
Real monthly average wage (per cent.)	1.4	2.3	0.5	0.2

Source: Czech Statistical Office, Ministry of Finance. Certain numbers were restated retroactively.

⁽¹⁾ Ministry of Finance estimate.

Economic growth and productivity gains have enabled a consistent growth in nominal monthly average earnings over the past three years. In 2008, nominal monthly average earnings in the entire economy grew 7.8 per cent. compared to 2007. The growth in nominal average earnings in the entire economy slowed down significantly to 3.3 per cent. in 2009 compared to 2008 and to 1.9 per cent. in 2010 compared to 2009. According to the estimate of the Ministry of Finance, nominal monthly average earnings in the entire economy grew 2.2 per cent. in 2011 compared to 2010. This increase was attributable to the increase of wages in the private sector of the economy, while public sector budget cuts impacted the nominal monthly average earnings negatively.

As a result of the increased CPI in 2008, the annual growth in real monthly average earnings slowed down to 1.4 per cent. in 2008. See "Inflation" above. In 2009, real monthly average earnings grew by 2.3 per cent. compared to 2008. In 2010, the annual growth in real monthly average earnings slowed down again to 0.5 per cent. In the first nine months of 2011, real monthly average earnings grew by 0.4 per cent. compared to the first nine months of 2010. According to the estimate of the Ministry of Finance, real monthly average earnings in 2011 increased by 0.2 per cent. compared to 2010.

From 1 January 2007 the minimum monthly wage has been CZK 8,000. In the first nine months of 2011, average nominal monthly wages in the entire economy amounted to CZK 23,726, marking an increase of 2.2 per cent. compared to the first nine months of 2010.

Labour Market

The transition to a market economy in the Czech Republic has caused significant changes in employment and unemployment patterns. Registered unemployment based on the methodology of the Ministry of Labour and Social Affairs grew relatively slowly during the mid 1990s and remained relatively stable in the years thereafter.

The average registered unemployment rate decreased from 9.01 per cent. in 2010 to 8.57 per cent. in 2011. The decrease in 2011 was mostly driven by the continuing expansion of the manufacturing industry which in turn was driven by the improvement in the global economic outlook, particularly in the first half of 2011.

The following table sets forth the average general unemployment rate in the Czech Republic as measured by the labour force sample survey in accordance with International Labour Organisation (the "ILO") methodology and the average registered unemployment rate in the Czech Republic calculated based on the methodology of the Ministry of Labour and Social Affairs, for the years ended 31 December 2008 to 2011.

	Year ended 31 December			
	2008	2009	2010	2011
	(per cent.)			
Unemployment rate under ILO methodology...	4.4	6.7	7.3	6.7
Registered unemployment rate.....	5.44	7.98	9.01	8.57

Source: Czech Statistical Office, Ministry of Finance, Ministry of Labour and Social Affairs, Eurostat.

Privatisation

The former National Property Fund (Fond národního majetku) (the "NPF") was established in 1991 as a special purpose vehicle to carry out Czech privatisations. The basic function of the NPF was to execute the sale of state enterprises in accordance with privatisation projects approved by the Government (or the Ministry of Finance in certain cases) and temporarily to manage state interests in certain companies prior to their privatisation. The NPF itself did not decide on the manner or timing of privatisations. As the purpose for which the NPF was formed was substantially fulfilled, it was liquidated at the end of 2005 and all of its assets and liabilities were transferred to the Ministry of Finance as of 1 January 2006.

From 1991 to the end of 2011, total revenues from privatisations were CZK 573.3 billion, of which the revenues in 2011 amounted to CZK 179.1 million. Privatisation revenues have experienced a decreasing trend, mainly due to the completion of large privatisations, including in the building sector, national monopolies (particularly in the energy and gas industries) and telecommunications, steel, oil and petrochemical companies, mainly to foreign investors.

A list of the residual interests held by the Czech Republic through the Ministry of Finance in strategic companies as of 30 November 2011 is set out below, together with details of their current status:

Company	Business	Value of the state stake based on Ministry of Finance valuation (CZK millions)	State stake (per cent.)	Status
Letiště Praha, a.s.	Airport	2,512.2	100.00	Act No. 69/2010 Coll., on the ownership of the airport Prague-Ruzyně, prevents the privatisation of Letiště Praha, a.s. As of 1 October 2011, the registered capital of Letiště Praha, a.s. was decreased as a result of a spin-off of part of Letiště Praha, a.s. and the merger of this part with Český aeroholding a.s.
České aerolinie a.s.	Airline	5,009.9	95.69	In May 2010, the Government approved a restructuring plan for České aerolinie a.s. On 24 November 2010, the Government instructed the Ministry of Finance to submit to the Government a proposal for the privatisation of České aerolinie a.s. within 3 years.
Český Aeroholding, a.s.	Transport	21.05	100.00	On 24 November 2010, the Government approved a project to establish a structure holding certain companies owned by the Czech Republic in the air and land transport sector. On 4 May 2011, the Government instructed the Ministry of Finance to finalise the increase of the registered capital of Český Aeroholding a.s. As of 1 October 2011, the registered capital of Český aeroholding a.s. was increased as a result of a spin-off of part of Letiště Praha, a.s. and the merger of this part with Český aeroholding a.s.
ČEZ, a. s.	Electricity	37,319.8	69.37	No plan adopted.
MERO ČR, a.s.	Oil and Gas	8,430.9	100.00	No plan adopted.

Company	Business	Value of the state stake based on Ministry of Finance valuation (CZK millions)	State stake (per cent.)	Status
ČEPRO, a.s.	Oil and Gas	5,660.0	100.00	No plan adopted.

Source: Ministry of Finance.

In anticipation of its privatisation, the assets of Prague airport operator Správa Letiště Praha, s.p., were transferred to the newly established company Letiště Praha, a.s. in December 2008. In March 2010, however, a bill aimed at preventing the privatisation of Letiště Praha, a.s. was enacted into law. Pursuant to this law, selected assets comprising the Prague airport can be owned only by the Czech Republic or legal entities registered in the Czech Republic and entirely owned by the Czech Republic.

In 2008, the Government confirmed the selection of advisers for the privatisation of the national airline, České aerolinie a.s. In April 2009, OSINEK a.s., a state-owned company, provided financing by way of a loan to České aerolinie a.s. In September 2009 OSINEK a.s. assigned the loan receivables to the Czech Republic. In February 2010, the European Commission started an examination of the financing provided by OSINEK a.s. to determine whether it complies with state aid rules. This examination is still pending. In May 2010, the Government approved a plan for restructuring České aerolinie a.s. over a three year period aimed at transforming České aerolinie a.s. into a stable commercial entity. The restructuring plan remains to be approved by the European Commission, which is currently examining whether the plan complies with the rules on restructuring state aid. In July 2010, the Czech Republic increased the registered capital of České aerolinie a.s. from CZK 2.7 billion to CZK 5.2 billion by capitalising the loan receivable assigned to the Czech Republic by OSINEK a.s. in the amount of CZK 2.5 billion and increased its stake to 95.69 per cent.

On 24 November 2010, the Government approved the project to establish a structure to hold certain companies owned by the Czech Republic in the area of air and land transport. As a result, Český Aeroholding, a.s. was established on 11 March 2011 by a contribution of a part of the enterprise of Letiště Praha, a.s. into the capital of Český Aeroholding, a.s., such contribution being approved by the Government. The main purpose of establishing Český Aeroholding, a.s. was to gradually incorporate Letiště Praha, a.s. and České aerolinie a.s. (including their subsidiaries) into Český Aeroholding, a.s. with the aim of creating cost saving for both entities while keeping the business autonomy of all their subsidiaries.

The Government, in its decision dated 24 November 2010, further instructed the Ministry of Finance to submit to the Government, no later than 3 years after the restructuring of České aerolinie a.s., a proposal for the privatisation of the state interest in České aerolinie a.s. held by Český Aeroholding, a.s., either by selling the state interest or by a strategic investor entering České aerolinie a.s.

On 4 May 2011, the Government approved a merger of part of Letiště Praha, a.s. and Český Aeroholding, a.s.. On 6 September 2011, the Ministry of Finance (acting as the sole shareholder of Český Aeroholding, a.s.) passed a resolution approving the increase of the registered capital of Český Aeroholding, a.s. by a contribution of part of Letiště Praha, a.s. into the capital of Český Aeroholding, a.s. As a result, the registered capital of Letiště Praha a.s. was decreased and the registered capital of Český Aeroholding, a.s. was increased as of 1 October 2011. The Government further instructed the Ministry of Finance to work towards increasing the registered capital of Český Aeroholding, a.s. by a contribution of the state interest in České aerolinie a.s. and to inform the Government of such increase by the end of 2012.

In addition to the companies controlled by the Czech Republic through the Ministry of Finance, the state also operates the Czech Post Office (Česká pošta, s.p.) and Czech Railways (České dráhy, a.s.). On 18 July 2007, the Government approved the transformation of the Czech Post Office from a state enterprise to a joint stock company, as part of its privatisation. Although a privatisation of the Czech Post Office and Czech Railways is planned for the future, currently there are no definitive plans as to when either of these operations will be privatised.

Pursuant to the Policy Statement, the coalition Government intends to proceed carefully in privatising companies with state ownership and it will not continue with the privatisation of companies with state ownership that have strategic significance, particularly the national electricity transmission system operator, ČEPS, a.s., and the national air navigation services provider, Řízení letového provozu České republiky, státní podnik. Pursuant to the Policy Statement, the Czech Republic will also retain its strategic control in ČEZ, a. s.

In the Policy Statement, the coalition Government undertook to use all privatisation income and dividends from companies with state ownership exclusively to fund the pension system reforms. See "*Public Finance—Pension, Social and Health Care Reforms*". There can be no assurance that the coalition Government will fulfil this undertaking.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

The following table sets forth the balance of payments of the Czech Republic for the years 2008 to 2010 and the nine months ended 30 September 2010 and 2011:

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011 ⁽¹⁾
	<i>(EUR millions)</i>				
A. Current Account	(3,297.7)	(3,429.5)	(4,666.0)	(4,032.9)	(3,260.8)
Balance of trade	1,033.6	3,297.8	2,091.3	1,912.3	3,304.6
Exports.....	84,852.9	70,989.7	88,093.6	64,043.2	75,160.4
Imports.....	83,819.3	67,691.8	86,002.4	62,131.0	71,855.7
Balance of services	2,961.4	2,799.7	2,972.8	2,290.8	2,106.2
Revenues.....	14,911.3	13,926.6	15,814.9	11,368.3	12,044.5
Transportation.....	3,663.9	3,360.9	3,845.1	2,815.8	2,949.8
Travel.....	5,340.4	5,023.5	5,381.9	3,934.1	3,924.5
Other	5,906.8	5,542.2	6,587.9	4,618.4	5,170.0
Expenditures	11,949.9	11,127.0	12,842.0	9,077.4	9,938.3
Transportation.....	2,845.8	2,401.3	3,119.9	2,239.1	2,603.2
Travel.....	3,158.8	2,923.4	3,074.5	2,307.2	2,512.5
Other	5,945.4	5,802.5	6,647.7	4,531.2	4,822.4
Balance of income	(7,053.8)	(9,461.1)	(10,087.6)	(8,509.0)	(8,918.1)
Credit	6,949.6	3,718.2	3,697.5	2,813.8	2,958.3
Debit	14,003.4	13,179.5	13,785.1	11,322.8	11,876.2
Balance of current transfers	(238.8)	(65.6)	357.5	273.0	246.4
Credit	2,643.4	2,721.0	3,472.1	2,549.9	2,595.4
Debit	2,882.2	2,786.7	3,114.7	2,277.0	2,349.0
B. Capital Account	1,080.6	1,937.4	1,288.7	1,046.7	136.7
Revenues.....	1,685.9	2,827.0	1,522.4	1,125.6	258.7
Expenditures	605.2	889.6	233.8	78.9	122.0
C. Financial Account	3,788.1	5,484.7	7,365.4	6,319.6	3,224.1
Direct investments	1,502.0	1,397.4	3,823.1	4,762.1	2,234.8
Abroad	(2,964.9)	(684.4)	(1,283.5)	(709.2)	(417.5)
In the Czech Republic.....	4,466.9	2,082.0	5,106.6	5,471.3	2,652.4
Portfolio investments	(306.9)	6,055.5	6,238.5	5,897.6	(702.7)
Assets.....	(205.4)	2,452.1	545.2	431.0	(1,259.8)
Liabilities.....	(101.6)	3,603.3	5,693.2	5,466.5	556.7
Financial derivatives	(8.3)	17.7	(119.0)	(29.5)	226.2
Assets.....	2,394.1	1,809.5	2,641.1	2,025.8	1,243.3
Liabilities.....	(2,402.4)	(1,791.8)	(2,760.2)	(2,055.3)	(1,017.2)
Other investments	2,601.3	(1,986.0)	(2,577.0)	(4,310.5)	1,465.9
Assets.....	(2,955.9)	687.1	(3,488.4)	2,656.7	(1,702.0)
Long-term	(2,750.7)	1,049.8	(1,866.2)	1,544.0	(1,351.8)
Short-term.....	(205.3)	(362.9)	(1,622.1)	1,112.7	(350.2)
Liabilities.....	5,557.2	(2,673.1)	911.3	(1,653.8)	3,167.9
Long-term	1,638.7	70.0	4.4	(366.7)	(72.4)

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011 ⁽¹⁾
	<i>(EUR millions)</i>				
Short-term.....	3,918.5	(2,743.1)	907.0	(1,287.0)	3,240.3
Sub-Total	1,571.0	3,992.6	3,988.1	3,333.4	100.0
D. Net errors and omissions, FX differences	22.4	(1,744.7)	(2,321.9)	(981.4)	(1,263.4)
Total.....	1,593.5	2,248.1	1,666.1	2,352.0	(1,163.4)
E. Change in reserves (- increase)	(1,593.5)	(2,248.1)	(1,666.1)	(2,352.0)	1,163.4

Source: CNB. Certain numbers were restated retroactively.

⁽¹⁾ Preliminary data.

The following table sets forth the balance of payments of the Czech Republic as a percentage of GDP for the years 2008 to 2011:

	Year ended 31 December			
	2008	2009	2010	2011 ⁽¹⁾
	<i>(per cent. of GDP)</i>			
A. Current Account	(2.1)	(2.4)	(3.1)	(1.9)
Balance of trade	0.7	2.3	1.4	3.0
Exports.....	55.0	50.1	58.9	N/A*
Imports.....	54.3	47.8	57.5	N/A*
Balance of services	1.9	2.0	2.0	1.8
Balance of income	(4.5)	(6.7)	(6.7)	(6.7)
FDI Dividends	(4.5)	(4.6)	(4.3)	N/A*
FDI Reinvested earnings.....	0.4	(1.6)	(1.8)	N/A*
Balance of current transfers	(0.2)	0.0	0.2	0.1
B. Capital Account	0.7	1.4	0.9	0.3
C. Financial Account	2.4	3.8	4.9	N/A*
Direct investments (FDI)	0.9	1.0	2.6	N/A*
FDI Abroad.....	(1.9)	(0.5)	(0.9)	N/A*
FDI in the Czech Republic.....	2.9	1.5	3.4	N/A*
Portfolio investments	(0.2)	4.2	4.2	N/A*
Equities.....	(0.8)	0.4	0.1	N/A*
Bonds and money market instruments.....	0.6	3.9	4.1	N/A*
Other investments	1.7	(1.4)	(1.8)	N/A*
D. Errors & Omissions	0.1	(1.2)	(1.5)	N/A*
E. Change in reserves (- increase).....	(1.0)	(1.6)	(1.1)	N/A*
<i>Memo:</i>				
Nominal GDP (EUR millions).....	154.3	141.4	149.4	N/A*

Source: CNB, Czech Statistical Office, Ministry of Finance.

⁽¹⁾ Ministry of Finance estimate.

* Data not available as of the date of this Offering Circular.

Current Account

The current account deficit of the Czech Republic increased from approximately EUR 3.3 billion in 2008 to approximately EUR 3.4 billion in 2009 and to approximately 4.7 billion in 2010. The current account

deficit according to the Ministry of Finance equated to approximately 3.1 per cent. of GDP in 2010. The level of the current account deficit in 2010, as well as in the previous years, is primarily attributable to the income balance deficit (due to dividends payments and expected amount of reinvested earnings). For the nine months ended 30 September 2011, the current account deficit was approximately EUR 3.3 billion. The Ministry of Finance has forecasted a current account deficit of 1.9 per cent. of GDP in 2011, 1.6 per cent. of GDP in 2012 and 1.7 per cent. in 2013. Actual results may differ materially from these forecasts.

Financial Account

The financial account had a surplus of approximately EUR 3.8 billion in 2008 and EUR 5.5 billion in 2009. In 2010, the financial account ended in a surplus of approximately EUR 7.4 billion, which, according to the Ministry of Finance, equated to approximately 5 per cent. of GDP in 2010. This represented an increase of more than EUR 1.8 billion in year-on-year terms and was mainly due to the increase in the net FDI inflow. The largest component of the overall surplus was the net portfolio investment inflow of approximately EUR 6.2 billion. The net inflow of direct investment remained relatively low in 2010. It reached EUR 3.8 billion, representing a year-on-year increase of almost EUR 2.4 billion. In the first nine months of 2011, the financial account had a surplus of more than EUR 3.2 billion (compared to a surplus of EUR 6.3 billion in the first nine months of 2010).

Balance of Trade

In addition to its EU membership, the Czech Republic is also a member of the WTO and a party to a number of bilateral international treaties concerning foreign trade and economic cooperation. According to the Czech Statistical Office, the trade surplus reached CZK 121.2 billion in 2010, a decrease of CZK 14.9 billion compared to 2009. According to the preliminary data of the Czech Statistical Office (based on the cross-border concepts), exports and imports at current prices rose in 2011 by 13.2 per cent. and 10.9 per cent., respectively, compared to 2010. According to the preliminary data of the Czech Statistical Office, the trade surplus reached CZK 191.4 billion in 2011, an increase of CZK 70.2 billion compared to 2010, with the main contributor being machinery and transport equipment recording a surplus of CZK 105.3 billion. Trade in mineral fuels, lubricants and related materials recorded a deficit of CZK 38.2 billion. According to the data of the CNB for the balance of payments (based on the national concepts), the trade surplus reached CZK 18.2 billion in 2011.

The following table sets out certain information on exports and imports of the Czech Republic at current prices (based on the cross-border concepts) for the years ended 31 December 2008 to 2011:

	Year ended 31 December			
	2008	2009	2010	2011 ⁽¹⁾
	<i>(CZK billion)</i>			
Exports (FOB) ⁽²⁾	2,473.7	2,125.1	2,532.8	2,866.1
Imports (CIF) ⁽³⁾	2,406.5	1,989.0	2,411.6	2,674.7
Balance	67.2	136.1	121.2	191.4
Exports (per cent. year-on-year.....)	(0.2)	(13.5)	18.4	13.2
Imports (per cent. year-on-year.....)	0.6	(17.3)	21.2	10.9

Source: Czech Statistical Office. Certain numbers were restated retroactively.

⁽¹⁾ Preliminary data.

⁽²⁾ The value of goods plus direct trading costs connected with cross-border transport.

⁽³⁾ The value of goods plus direct external costs connected with cross-border transport.

Focus of Trade

The following table sets forth information on the development and the geographical composition of the Czech Republic's balance of trade at current prices (based on the cross-border concepts) for the years ended 31 December 2008 to 2011:

	Year ended 31 December			
	2008	2009	2010	2011 ⁽¹⁾
	<i>(CZK million, current prices)</i>			
Total imports	2,406,489	1,989,036	2,411,556	2,674,696
Developed market economies	1,817,318	1,498,674	1,722,116	1,908,275
of which 27 EU countries.....	1,611,350	1,327,803	1,527,883	1,706,488
Developing economies.....	145,387	137,355	187,182	194,644
European transition economies and CIS ⁽²⁾ in total.....	221,575	139,945	192,078	224,385
Others	222,210	213,062	310,182	347,393
Total exports	2,473,736	2,125,104	2,532,797	2,866,123
Developed market economies	2,241,353	1,938,398	2,284,640	2,564,432
of which 27 EU countries.....	2,107,915	1,829,371	2,126,339	2,376,844
Developing economies.....	82,549	85,110	100,631	107,205
European transition economies and CIS ⁽²⁾ in total.....	130,712	85,709	120,826	161,106
Others	9,123	15,886	26,700	33,381

Source: Czech Statistical Office. Certain numbers were restated retroactively.

⁽¹⁾ Preliminary data.

⁽²⁾ Commonwealth of Independent States.

In 2011, almost 83 per cent. of the total exports were to the EU Member States, of which 32.2 per cent. were to Germany, 9.0 per cent. to Slovakia, 6.3 per cent. to Poland, 5.5 per cent. to France, 4.5 per cent. to the United Kingdom, 4.6 per cent. to Austria and 4.1 per cent. to Italy.

In 2011, 63.8 per cent. of the total imports were from the EU Member States, of which 25.6 per cent. were from Germany, 6.5 per cent. from Poland, 5.7 per cent. from Slovakia, 3.9 per cent. from Italy, 3.3 per cent. from France, 3.3 per cent. from Austria and 3.3 per cent. from the Netherlands. Other major import countries include China and Russia. In 2011, imports from China represented 12.5 per cent. of the total imports and imports from Russia represented 5.3 per cent. of the total imports.

The Czech Republic records a trade surplus with the EU Member States and a trade deficit with the non-EU Member States, mainly due to imports of various goods from China and commodities from the Russian Federation. The trade surplus achieved with EU countries was approximately CZK 670.4 billion in 2011 compared to CZK 598.5 billion in 2010 and CZK 484.2 billion in 2009. The turnover with EU countries accounted for 73.7 per cent. of the total foreign trade turnover in 2011.

Composition of Trade

The following table sets forth the Czech Republic's export and imports of goods at current prices (based on the cross-border concepts) by Standard International Trade Classification as a percentage of the total exports and imports for the years ended 31 December 2008 to 2011:

	Year ended 31 December			
	2008	2009	2010	2011 ⁽³⁾
	<i>(per cent.)</i>			
Exports				
Food and live animals	3.1	3.5	3.0	3.2
Beverages and tobacco.....	0.7	0.8	0.7	0.6
Crude materials, inedible, except fuels	2.6	2.7	3.0	2.8
Mineral fuels, lubricants and related materials....	3.4	3.6	3.7	3.7
Animal and vegetable oils, fats and waxes.....	0.1	0.1	0.2	0.2
Chemicals and related products ⁽¹⁾	6.0	6.4	6.5	6.3
Manufactured goods classified chiefly by material	19.5	17.6	17.2	17.7
Machinery and transport equipment.....	53.8	53.6	54.6	54.4

	Year ended 31 December			
	2008	2009	2010	2011 ⁽³⁾
	<i>(per cent.)</i>			
Miscellaneous manufactured articles	10.7	11.7	11.1	10.9
Commodities and transactions ⁽²⁾	0.1	0.1	0.1	0.1
Total	100.0	100.0	100.0	100.0
Imports				
Food and live animals	4.4	5.4	4.7	4.6
Beverages and tobacco.....	0.5	0.7	0.6	0.6
Crude materials, inedible, except fuels	2.7	2.3	2.7	3.0
Mineral fuels, lubricants and related materials....	10.4	9.2	9.6	10.6
Animal and vegetable oils, fats and waxes.....	0.2	0.3	0.2	0.2
Chemicals and related products ⁽¹⁾	10.3	11.2	10.7	11.0
Manufactured goods classified chiefly by material	19.7	17.6	17.8	18.2
Machinery and transport equipment.....	41.3	41.3	43.4	41.8
Miscellaneous manufactured articles	10.4	11.9	10.3	9.9
Commodities and transactions ⁽²⁾	0.1	0.1	0.1	0.2
Total	100.0	100.0	100.0	100.0

Source: Czech Statistical Office. Certain numbers were restated retroactively.

⁽¹⁾ Chemicals and related products not classified elsewhere in the Standard International Trade Classification.

⁽²⁾ Commodities and transactions not classified elsewhere in the Standard International Trade Classification including postal packages not classified according to kind, special transactions and commodities not classified according to kind, coin (other than gold coin), not being legal tender and gold, non-monetary (excluding gold, ores and concentrates).

⁽³⁾ Preliminary data.

In 2011, the main part of both the exports and the imports was machinery and transport equipment, which increased by CZK 177.9 billion (or 12.9 per cent.) and by CZK 72.6 billion (or 6.9 per cent.), respectively, compared to 2010.

Foreign Direct Investment

Supported by investment incentives, the Czech Republic received in total CZK 2.4 trillion (EUR 77.2 billion) in FDI from 1993 to the third quarter of 2011 according to the CNB. The ratio of FDI inflow to GDP increased from 1.5 per cent. in 2009 to 3.5 per cent. in 2010.

The FDI inflows in the years 2004 to 2008 were influenced by large privatisation projects, most of which have now been completed. For example, privatisation of Český Telecom, Unipetrol and Vítkovice Steel were completed in 2005. Besides privatisation, the Czech economy has experienced a large inflow of FDI into green-field projects, in particular into the automotive and electronics industries, driven by the advantages of relatively low-cost and skilled labour, geographical proximity to Western European markets and the government-sponsored investment incentives scheme. Given the large stock of FDI in the country, the structure of FDI has changed, with a shift from new investments towards reinvested earnings beginning in 2008.

The following table sets forth a breakdown of FDI in the Czech Republic and Czech direct investment abroad by type of capital for the years ended 31 December 2008 to 2010 and the nine months ended 30 September 2010 and 2011:

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011 ⁽¹⁾
	<i>(CZK millions)</i>				
Direct investment					
Abroad	73,802.7	18,099.8	32,507.8	(18,272.9)	10,151.0

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011 ⁽¹⁾
	<i>(CZK millions)</i>				
Equity capital	17,100.0	7,078.1	5,866.6	(2,423.1)	485.4
Reinvested earnings	58,007.7	8,949.0	14,017.3	(10,898.7)	13,488.9
Other capital.....	(1,305.0)	2,072.7	12,624.0	(4,951.2)	(3,823.3)
In the Czech Republic (FDI)	110,129.6	55,793.9	129,514.2	138,553.5	64,548.3
Equity capital	19,654.2	19,094.5	27,755.6	25,391.8	(9,195.0)
Reinvested earnings	41,215.6	67,696.6	82,572.1	62,529.3	71,204.5
Other capital.....	49,259.8	(30,997.3)	19,186.6	50,632.4	2,538.7
Net direct investment	36,326.9	37,694.1	97,006.4	120,280.6	54,397.2

Source: CNB. Certain numbers were restated retroactively.

⁽¹⁾ Preliminary data.

The industrial breakdown of FDI is based on the branch classification of economic activities that corresponds to the internationally used NACE classification. The following table sets forth the distribution of net FDI in the Czech Republic by industry sector according to the NACE Revision 1.1. classification for the years ended 31 December 2008 and 2009:

	Year ended 31 December	
	2008	2009
<i>(CZK millions)</i>		
Non-manufacturing		
Agriculture, hunting and forestry	(165.8)	14.7
Mining and quarrying.....	(13,027.0)	(1,930.1)
Electricity, gas, and water supply.....	13,049.7	21,539.8
Construction.....	(929.6)	872.1
Trade, hotels and restaurants	4,000.5	9,846.3
Transport, storage and communication.....	(8,496.6)	(20,087.7)
Financial intermediation.....	51,217.4	58,057.2
Real estate renting and business activities.....	49,330.7	25,119.3
Other community, social and personal services...	1,692.7	682.7
Non-manufacturing total	96,267.4	94,114.1
Manufacturing		
Food and tobacco	7,418.7	(2,470.4)
Textiles, wearing apparel, and leather	880.0	(426.7)
Wood, paper and publishing.....	717.3	(1,775.1)
Refined petroleum and chemicals.....	(6,898.9)	(6,226.1)
Non-metallic products	3,751.9	(1,283.6)
Basic metals and metal products	(3,009.2)	(6,314.3)
Machinery and equipment	8,179.6	(14,778.5)
Recycling and other manufacturing.....	1,645.8	3,029.7
Manufacturing total	13,862.2	(36,678.2)
Total net FDI⁽¹⁾	110,130.0	55,793.9

Source: CNB. Certain numbers were restated retroactively.

⁽¹⁾ Total net FDI includes also other sector categories than the categories listed in the table.

According to international standards, the NACE Revision 2 has been introduced since 2010. The following table sets forth the distribution of net FDI in the Czech Republic by industry sector according to the NACE Revision 2 classification for the year ended 31 December 2010 and the nine months ended 30 September 2011:

	Year ended 31 December	Nine months ended 30 September
	2010	2011
	<i>(CZK millions)</i>	
Non-manufacturing		
Agriculture, hunting and fishing.....	335.2	(9.7)
Mining and quarrying.....	4,962.2	(2,178.5)
Electricity, gas, steam and air conditioning supply.....	5,834.7	23,074.7
Water supply.....	1,836.0	644.1
Construction.....	7,458.7	8,646.2
Wholesale and retail trade; repair of motor vehicles.....	43,402.3	11,098.8
Transport, storage.....	15,919.5	5,572.7
Accommodation and food service activities.....	(1,968.1)	(979.2)
Information and communication.....	13,171.3	2,294.9
Financial and insurance activities.....	40,378.2	4,292.2
Real estate activities.....	432.5	(1,705.1)
Professional, scientific and technical activities....	7,750.9	(1,752.6)
Administrative and support service activities.....	1,332.2	(699.7)
Education.....	49.1	0.9
Human health and social work activities.....	(242.8)	210.9
Arts, entertainment and recreation.....	(491.1)	546.2
Other community, social and personal services.....	174.6	94.3
Non-manufacturing total.....	140,335.4	49,151.1
Manufacturing		
Food, beverages and tobacco.....	(6,218.8)	(214.6)
Textiles, wearing apparel.....	1,290.9	(144.1)
Wood, paper and publishing.....	(160.0)	492.9
Petroleum and chemicals.....	3,042.0	4,498.5
Basic metals and metal products.....	17,225.7	1,944.0
Computer, electronic and optical products.....	(10,150.0)	232.6
Machinery and equipment.....	(609.7)	4,340.7
Motor vehicle and trailers.....	(14,205.5)	(4,970.5)
Other transport equipment.....	(645.5)	1,607.5
Other manufacturing.....	(3,325.8)	5,292.3
Manufacturing total.....	(13,756.5)	12,614.0
Total net FDI⁽¹⁾.....	129,514.2	64,548.3

Source: CNB. Certain numbers were restated retroactively.

⁽¹⁾ Total net FDI includes also other sector categories than the categories listed in the table.

During the nine months ending 30 September 2011, the countries with the largest contribution to the positive total FDI inflow to the Czech Republic were Germany (CZK 38.6 billion), Austria (CZK 12.0 billion), Netherlands (CZK 11.3 billion) and Romania (CZK 9.6 billion).

During the nine months ending 30 September 2011, the countries with the largest contribution to the positive total FDI outflow from the Czech Republic were Netherlands (CZK 3.1 billion), Slovakia (CZK 2.8 billion), Germany (CZK 2.8 billion), and Cyprus (CZK 1.2 billion).

As part of its economic transformation efforts, the Czech Republic has pursued a policy of encouraging FDI as a means of attracting capital, bringing new managerial skills into the economy and creating employment opportunities.

Since 2000, the Government has offered a standardised package of investment incentives for industrial companies, offered pursuant to terms specified in Czech law and not limited to foreign investors. This programme has included, among others, the following measures: corporate income tax relief, reduced corporate income tax for new investors, financial support for creating new jobs, financial support for the ongoing training of employees, transfers of technically equipped areas at a preferential price and transfers of land. The legal framework of the investment incentives programme was discussed with the European Commission from a state aid perspective within the accession negotiations with the Czech Republic prior to 2004. As a result, the European Commission does not need to review aid granted to investors under this programme on an individual basis and such aid is reviewed only by the Czech Competition Office.

In the Policy Statement, the coalition Government declared that it will create newly defined conditions for FDI and pledged that these conditions will, among other things, aim to improve the facilities of industrial zones and improve services for foreign investors through the use of universities, research and scientific establishments in the Czech Republic. In 2011, the Ministry of Industry and Trade prepared a draft amendment to the Czech Investment Incentives Act in order to attract foreign investment with a focus on advanced technology and activities with high added value and strong export potential. The draft amendment proposes changes to the current conditions for the investment incentives, including an extension of the period during which a company can benefit from tax incentives from 5 to 10 years. It also extends national support to companies carrying out industrial research and development, creating technologically advanced products and technology and providing strategic services related to the development of information technology such as centres for software development, high-tech repair centres and shared service centres. The draft amendment was approved by the Government on 19 October 2011 and is currently pending approval by the Chamber of Deputies.

MONETARY AND FINANCIAL SYSTEM

Structure and Development of the Czech Banking System

As of 31 January 2011, there were 44 banks and foreign bank branches operating on the Czech market, of which 18 were banks, five building societies and 21 foreign bank branches. As of such date, the four largest banks collectively accounted for at least 57 per cent. of total banking sector assets. Foreign investors have a dominant role in the capital of the banking sector, with Austrian Erste Bank, Belgian KBC Bank and French Société Générale owning between them three major banks in the Czech economy.

The global financial crisis has had a limited adverse effect on the Czech banking sector. The Czech Republic performs mostly commercial banking activities, is not directly exposed to the subprime mortgage market and has not had extensive involvement in investment banking or product structuring linked to subprime debt. The primary adverse effects have been a slowing of growth in lending, an increased creation of loan loss reserves and an increase in write-offs of bad loans. Notwithstanding these adverse effects the banking sector generated a net profit of CZK 59.7 billion in 2009, CZK 55.7 billion in 2010 and CZK 42.2 billion during nine months ending 30 September 2011 (which was 3.4 per cent. lower compared to the first three quarters of 2010). Even though interest rates were relatively low in 2010, net interest income increased by 2.1 per cent. in 2010 compared to 2009, accounting for almost 67 per cent. of total income from financial activities. During the nine months ending 30 September 2011, net interest income accounted again for almost 67 per cent. of total income from financial activities. The growth in aggregate loans of the banking sector increased from 1.3 per cent. in 2009 to 3.5 per cent. in 2010, and further still to 6.0 per cent. in 2011. As of 31 December 2011, the total assets of the domestic banking sector were CZK 4,611 billion, which represented a 6.5 per cent. increase compared to 31 December 2010.

The Czech banking sector is relatively well capitalised. The capital adequacy ratio of the banking sector as a whole increased in 2010 and during the first three quarters of 2011, reaching 15.5 and 15.7 per cent. as of 31 December 2010 and 30 September 2011, respectively. Tier 1 capital to risk-weighted assets amounted to 14.2 per cent. in the third quarter of 2011. The level of capital held by the banking sector for capital adequacy purposes in 2010 increased compared to 2009 despite unchanged regulatory requirements. In 2010, the total regulatory capital of the banking sector increased by CZK 24.7 billion compared to 2009, and reached CZK 289.4 billion. The level of capital held by the banking sector for capital adequacy purposes during nine months ending 30 September 2011 further increased by CZK 5.4 billion. As of 30 September 2011, the total regulatory capital stood at CZK 303.3 billion. As of 31 December 2011, all banks and building societies in the Czech Republic complied with the minimum capital adequacy requirement currently set at 8 per cent.

Among the standard types of risks faced by the domestic banking sector, credit risk is considered the most significant in view of the current structure of domestic banking transactions. The CNB divides loans into non-performing loans (consisting of substandard, doubtful and loss loans) and non-default loans (consisting of standard and watch loans) based on an assessment of their quality. Standard loans accounted for 89.9 per cent. of the total loan portfolio of the banking sector at the end of 2011. Nonetheless, non-performing loans of the Czech banking sector increased by 1.2 per cent. in 2011 compared to 2010. As at 31 December 2011, the ratio of non-performing loans to total loans was 6.0 per cent., as compared to 6.2 per cent. at the end of 2010. The ratio of non-performing loans to non-financial corporations was 8.2 per cent. at the end of 2011, as compared to 9.0 per cent. at the end of 2010, and the ratio of non-performing loans to households was 4.9 per cent. at the end of 2011, as compared to 5.0 per cent. at the end of 2010.

The following table sets forth information on growth in loans and non-performing loans in the Czech Republic in percentage terms for the years ended 31 December 2008 to 2011:

	Year ended 31 December			
	2008	2009	2010	2011
	<i>(per cent.)</i>			
Growth in loans ⁽¹⁾				
Total	16.4	1.3	3.5	6.0
Non-financial corporations.....	14.1	(7.8)	(0.2)	6.1
Property loans	25.5	(5.9)	6.0	N/A*

years. The Bank Board sets monetary policy, determines the instruments for implementing that policy and decides upon the fundamental monetary policy measures of the CNB and other fundamental measures. Bank Board members, who are not permitted to hold other government positions, cannot normally be removed from office but may only serve two terms.

Monetary Policy

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

The current monetary policy regime of the CNB has been based on direct inflation targeting since 1998. In March 2007, the CNB set 2 per cent. inflation target with a tolerance band of one percentage point in either direction, with effect from January 2010. The CNB has been successful in meeting the target in recent years. See "*The Czech Economy - Inflation*" above.

The currency regime of the Czech koruna is a managed-float. The CNB increased its two week repo rate, which is the key policy rate, from 2.00 per cent. to 3.75 per cent. between 2006 and early 2008 to control rising inflationary pressures driven by the economic growth and the increase in commodity prices. As of August 2008, the CNB eased its policy to aid the economy and resist the recession.

The following table sets forth the principal annual interest rates in the Czech Republic as of the dates indicated:

	As of 31 December			
	2008	2009	2010	2011
	<i>(per cent.)</i>			
Discount rate	1.25	0.25	0.25	0.25
Lombard rate	3.25	2.00	1.75	1.75
Repo rate (two weeks).....	2.25	1.00	0.75	0.75

Source: CNB.

On 7 May 2010, the Bank Board decreased the two-week Repo rate to 0.75 per cent., which is its historical minimum. In addition, the Lombard rate was decreased to 1.75 per cent. while the Discount rate remained unaltered at 0.25 per cent. Since then, the monetary policy interest rates have remained unchanged at these levels.

The following table sets forth information on monetary policy, interest rates, the foreign exchange rate and the banking sector of the Czech Republic as of the dates indicated:

	As of 31 December			
	2008	2009	2010	2011
Market interest rate (10-year IRS, per cent. p.a.)	3.19	3.53	3.06	2.15
Government bond yield (10-year, per cent. p.a.)	4.07	3.54	3.81	3.28
Real effective exchange rate (CPI-deflated, per cent., 2005 = 100) ⁽¹⁾	123.05	118.09	120.17	122.57
Banks' balance sheet (per cent. of GDP).....	109.7	114.6	116.4	121.4 ⁽²⁾
Bank's loan-to-deposit ratio (per cent.)	87.2	87.7	88.2	87.3
Credit growth to private non-financial sector (per cent. year-on-year).....	17.6	2.1	4.1	5.9

Source: Bloomberg, Czech Statistical Office, CNB.

⁽¹⁾ Weighted by foreign trade turnover.

⁽²⁾ Ministry of Finance estimate.

* Data not available as of the date of this Offering Circular.

The recession during 2008 and 2009 interrupted the private credit growth of approximately 25 per cent. year-on-year until the middle of 2010. Credit to the private non-financial sector grew at the rate of 5.9 per cent. year-on-year in 2011. There are no foreign currency loans provided by the banks to households.

Money Supply

As part of the of harmonisation of monetary statistics in the Czech Republic with the requirements of the ECB, the CNB compiles statistics on monetary developments on a basis methodologically comparable with the ECB's monetary data for the euro zone. In addition, the CNB compiles national monetary statistics for its own monetary analysis. The national monetary statistics are based on the same statistical principles, standards and definitions as the harmonised statistics on monetary developments used by the ECB, although their structure is different, especially for the monetary aggregates. For the purposes of comparability with countries from the euro zone as well as with other countries using the ECB methodology for compiling statistics on monetary developments, this section contains data in the methodology comparable with the ECB's monetary data.

The following table sets forth a breakdown of the monetary base and monetary aggregates as of the dates indicated:

	As of 31 December			
	2008	2009	2010	2011
	<i>(CZK billions)</i>			
Monetary base⁽¹⁾	436.5	430.4	431.5	461.3
Currency in circulation.....	365.5	353.6	357.5	378.0
Overnight deposits	1,309.5	1,418.3	1,664.2	1,771.5
Narrow money(M1)	1,675.0	1,771.8	2,021.7	2,149.5
Deposits with agreed maturity up to 2 years....	556.8	482.0	376.9	367.3
Deposits redeemable at notice up to 3 months	402.1	395.6	309.4	301.7
Intermediate money (M2)	2,633.9	2,649.5	2,707.9	2,818.5
Repurchase agreements.....	21.9	14.4	12.4	3.9
Money market fund shares/units	46.8	43.6	38.6	10.7
Debt securities up to 2 years	0.8	1.7	1.0	2.7
Broad money (M3)	2,703.4	2,709.1	2,760.0	2,835.8
Narrow money (M1) ⁽²⁾	9.7	6.1	7.8	6.0
Intermediate money (M2) ⁽²⁾	14.0	0.8	0.3	3.7
Broad money (M3) ⁽²⁾	13.1	0.4	0.0	3.1

Source: CNB. Certain numbers were restated retroactively.

⁽¹⁾ Methodology for compiling the monetary base has been harmonized on the international level among the member states of the IMF.

⁽²⁾ Annual growth rates.

In 2008, the monetary base was CZK 436.5 billion and decreased to CZK 430.4 billion in 2009. In 2010, the monetary base increased to CZK 431.5 billion and further to 461.3 billion in 2011.

In 2008, the broad money aggregate (M3) was CZK 2,703.4 billion and increased by 0.4 per cent. year-on-year to CZK 2,709.1 billion in 2009. The broad money aggregate (M3) increased by 0.02 per cent. year-on-year in 2010 and reached CZK 2,760.0 billion. In 2011, the broad money aggregate (M3) increased by 3.1 per cent. and reached CZK 2,835.8 billion.

The following table sets forth a breakdown of the monetary base by its sources and use as of the dates indicated:

	As of 31 December			
	2008	2009	2010	2011
	<i>(CZK thousands of billions)</i>			
Monetary base	436.5	430.4	431.5	461.3
Sources of the monetary base:				
Autonomous factors	671.2	764.6	783.9	797.0
Monetary policy factors	(234.7)	(334.2)	(352.5)	(335.7)
Use of the monetary base (reserve money):				
Currency	399.2	387.3	391.7	412.0
Reserves	37.3	43.1	39.8	49.4

Source: CNB.

Exchange Rate Policy

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

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

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

The following table sets forth the exchange rate of the Czech koruna against the euro and the US dollar, as an average for each of the years indicated:

	2008	2009	2010	2011
CZK/EUR				
Period end	26.93	26.47	25.06	25.80
Average	24.94	26.45	25.29	24.59
CZK/USD				
Period end	19.35	18.37	18.75	19.94
Average	17.03	19.06	19.11	17.69

Source: CNB.

International Reserves

In addition to maintaining the Czech Republic's foreign currency reserves, the CNB also holds gold reserves as part of its international reserves. In 1998 the CNB had reduced its level of gold reserves to an amount that is no longer significant. It is now CNB's policy to hold more liquid financial instruments. The Bank Board considers the active management of international reserves in order to generate further growth of international reserves assets to be undesirable. The Bank Board has stated that when gains are generated from international reserves, it is appropriate to implement a strategy to sell at least part of the gains on the market gradually. The allocation of the international reserves slightly changed at the end of 2008 due to the gradual transfer of a portion of the dollar portfolio into the euro portfolio.

The following table sets out the Czech Republic's international reserves as of the dates indicated and as a percentage of GDP for the relevant period:

	As of 31 December			
	2008	2009	2010	2011 ⁽¹⁾
Reserves (CZK billions)				
Foreign currency reserves(2).....	695.9	693.1	712.5	702.5
IMF reserve position.....	3.1	4.4	6.6	13.1
SDRs(3).....	0.4	22.9	22.9	23.1
Gold(4).....	6.9	8.3	10.9	12.4
Other reserve assets(5).....	9.6	35.5	43.8	52.3
Total.....	716.0	764.3	796.8	803.4
Reserves (EUR billions)				
Foreign currency reserves(2).....	25.8	26.2	28.4	27.2
IMF reserve position.....	0.1	0.2	0.3	0.5
SDRs(3).....	0.0	0.9	0.9	0.9
Gold(4).....	0.3	0.3	0.4	0.5
Other reserve assets(5).....	0.4	1.3	1.8	2.0
Total.....	26.6	28.9	31.8	31.1
Reserves as per cent. of GDP.....	19.4	21.1	21.7	21.0

Source: Czech Statistical Office, CNB, Ministry of Finance. Certain numbers were restated retroactively.

⁽¹⁾ Preliminary data.

⁽²⁾ Foreign currency reserves include securities, and total currency and deposits.

⁽³⁾ Following the IMF's decision on a general SDR allocation and on a special one-time allocation to all IMF member countries, the Czech Republic obtained a total amount of SDR 780,201,010 (CZK 21.6 billion) in August and September 2009. According to the current methodology, the allocated funds are included in the CNB's international reserves without a corresponding counterpart in liabilities.

⁽⁴⁾ Gold reserves include gold deposits and, if appropriate, gold swapped. Gold is valued at market price.

⁽⁵⁾ Other reserve assets include financial derivatives, loans to non-bank non-residents, and banknotes and collateral held in reverse repos.

In 2009 the international reserves of the CNB increased significantly in Czech koruna terms primarily as a result of a general SDR allocation and net inflow of EU funds into the Czech Republic. The gross international reserves of the CNB have increased from CZK 764.3 billion at the end of 2009 to CZK 796.8 billion at the end of 2010 primarily as a result of external inflows. The reserves were CZK 803.4 billion (EUR 31.1 billion) at the end of 2011.

As of 30 September 2011, accumulated international reserves, in terms of goods and services import months coverage, was 3.4 months, as compared with 3.5 months as of 31 September 2010.

Strategy with respect to ERM II and Adoption of Euro

Upon joining the EU, the Czech Republic became an automatic participant in the third stage of European Monetary Union concerning adoption of the euro with the status of "Member State with a derogation". Under EU legislation, prior to adopting the euro, the Czech Republic must have fulfilled the relevant Maastricht convergence criteria. The convergence criteria required for entering the euro zone are formally assessed on a regular basis and the final decision is subsequently made by a summit of EU Member States acting on the recommendation of the ECOFIN Council.

The initial strategy of the Czech Republic with respect to its participation in the European Exchange Rate Mechanism ("ERM II") and the introduction of the euro as the official Czech currency was jointly prepared by the CNB and the Ministry of Finance and approved by the Government in 2003. The document setting out the strategy summarised the key points for the Czech Republic's integration into European monetary structures and discussed the positive effects and potential risks associated with joining the euro zone. The document recommended that the Czech Republic join the euro zone as soon as

economic conditions allow, rather than as soon as possible. The strategy of the Czech Republic was updated by the CNB and the Ministry of Finance and approved by the Government on 29 August 2007. This updated strategy evaluated the fulfilment of the convergence criteria, the feasibility of the Czech Republic to operate within the euro zone and the readiness of the Czech economy to adopt the euro. It did not include a specific target date for joining the euro zone and it estimated at least a three-year period of technical preparations for adopting the euro.

The Czech Republic is not currently a participant in ERM II. The Czech Republic has stated that it does not intend to stay in ERM II for a period longer than the required minimum of two years (required by the Maastricht exchange rate condition) and, accordingly, that it anticipates entering ERM II only when conditions have been established which enable it to adopt the euro at the time of the assessment of the Maastricht exchange condition two years after joining ERM II, and technical preparations for adopting the euro would commence at the moment of the decision to join ERM II.

In December 2009, the Government approved a joint analysis by the Ministry of Finance and the CNB entitled "Assessment of the Fulfilment of the Maastricht Convergence Criteria and the Degree of Economic Alignment of the Czech Republic with the Euro Area", which assesses the preparation and readiness of the Czech Republic for ERM II entry and subsequent adoption of the euro.

On 29 July 2010, Mr. Petr Necas, the Prime Minister of the coalition Government, publicly announced that the Government will not commit in the Policy Statement to any target date or promise with respect to adoption of the Euro.

On 14 December 2011, the Government agreed with the reiterated recommendation of the Ministry of Finance and the CNB not to set a target date with respect to adoption of the Euro and not to attempt to enter ERM II during 2012.

Banking Supervision and Regulation

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

The CNB is the licensing authority for all new banks as well as for any foreign banks wishing to establish operations in the Czech Republic. According to the single European passport rule adopted by the directive 2006/48/EC, banks with their registered seat in states belonging to the European Economic Area (the "EEA") may establish operations in the Czech Republic without the need to obtain a licence from the CNB. Generally, such foreign banks remain under the supervision of their domestic bank authorities.

Czech banks and branches of foreign banks that do not operate in the Czech Republic under the single European passport regime are subject to regulation by the CNB Act, the Czech Banking Act and regulations issued by the CNB. To the extent that banks act as investment firms, they are also regulated by rules applicable to investment firms. In an effort to continue to harmonise the Czech banking system with that of the EU, the Parliament adopted a substantial amendment to the Czech Banking Act in 2002. This amendment, which introduced inter alia, the concept of banking supervision on a consolidated basis, came into force on 1 May 2002 with the exception of certain provisions that came into force as of the Czech Republic's accession to the EU on 1 May 2004. Between 2004 and 2009, the Czech Banking Act was amended many times, mainly in connection with amendments of other laws as part of the process of incorporation of EU directives. In an effort to modernise the Czech banking system in accordance with international standards, the CNB issued a number of regulations relating to: (i) governance and minimum reserves requirements; (ii) capital adequacy; (iii) large exposures; and (iv) the classification of credit exposures and the creation of provisioning for loans. These regulations also apply to the branch offices of foreign banks (from non-EU Member States) to the extent provided in the relevant regulation. As of 1 July 2007 a new regulation No. 123/2007 of the CNB, which implements the Basel II capital adequacy requirements and other prudential requirements, became effective. The changes introduced by Basel II.5 (e.g. capital requirements, exposure limits, securitisation and resecuritisation regulation, remuneration) have been implemented by an amendment to the Czech Banking Act effective as of 28 February 2011 and

by two amendments to the CNB's regulation No. 123/2007 effective as of 31 December 2010 and 1 April 2011, respectively.

In September 2009, the Czech Banking Act was amended to simplify the process for capital increases by Czech banks and to provide more flexibility to the CNB to intervene in the case of a troubled bank. Government intervention is considered a last resort solution to be used only to the extent there is no purchaser for a troubled bank.

Czech banks and, in certain cases, branches of foreign banks are required to insure individual depositors by contributing a fraction of the customers' deposits to the deposit insurance fund to ensure adequate deposit insurance coverage. With effect from 15 December 2008, all deposits, including interest, with Czech banks (and in certain cases also Czech branches of foreign banks) were insured up to 100 per cent. of the first EUR 50,000 per depositor per bank. Compensation for an insured deposit is payable after a written confirmation from the CNB of a bank's inability to discharge its obligations to depositors or, in case of a branch of a foreign bank, after a similar confirmation from the bank's home supervisory authority. In April 2010, the Czech Republic adopted an amendment to the Czech Banking Act increasing the deposit insurance coverage from EUR 50,000 to EUR 100,000 from 31 December 2010, as required by the relevant EU directive.

The Czech Banking Act was amended in connection with adoption of Czech Act on Criminal Liability of Corporations introducing criminal offences that banks, insurance companies, investment firms, payment institutions and other types of regulated entities can be held liable for with effect from 1 January 2012. Imposition of certain penalties upon these regulated entities will be subject to the opinion of the CNB.

In November 2011, the Government has proposed an amendment to the Czech Banking Act which changes regulation applicable to third countries bank branches (e.g. increase of funds provided by a third country bank to its branch, obligations of a third country bank to provide the CNB with more information). The purpose of the amendment is to create equal conditions within the banking sector. The amendment is currently pending approval by the Chamber of Deputies.

In January 2012, the Ministry of Finance has proposed an amendment to the CNB Act. The purpose of the amendment is to harmonise regulation of the CNB with EU law.

Financial Markets

Regulation of Financial Markets

The supervisory responsibility for the Czech financial markets was historically divided among four agencies and was gradually consolidated under the CNB during 2005 and 2006.

Prior to 31 March 2006 the main regulator of the capital markets in the Czech Republic was the Czech Securities Commission, which supervised capital market professionals' compliance with applicable laws and regulations, issued licences to professionals operating on the Czech capital markets, supervised the offering of securities, approved prospectuses, supervised reporting and other issuer and capital market professional obligations and performed all other roles of a market regulator. The Czech Securities Commission ceased to exist on 31 March 2006 and the role of the market regulator was transferred to the CNB as of 1 April 2006. As of the same date, the CNB also took over the activities of the Office for Supervision over Insurance Companies and Pension Funds, previously part of at the Ministry of Finance, and the activities of the Office for Supervision over Credit Unions. As a result, the CNB now has the role of an integrated regulator and supervisor in the areas of banking, foreign exchange regulation, capital markets, insurance, pension funds and credit unions.

Czech Capital Markets

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

including the Directive 2003/71/EC on the prospectus published when securities are offered to the public or admitted to trading. In 2008, the Czech Republic implemented the Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments. In August 2009, the Czech Republic implemented, after a significant delay, the Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending directive 2001/34/EC.

In June 2011, the Czech Republic implemented (i) the Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) and two directives implementing that Directive; and (ii) the Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010 amending the above Directives 2003/71/EC and 2004/109/EC.

In October 2011, the Ministry of Finance commenced a public consultation regarding the preparation of a new Czech Collective Investment Act. The act shall, among others, implement the Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers.

In November 2011, the Government proposed an amendment to the Bonds Act, which, among others, eliminates the requirement for the CNB's approval of terms and conditions of domestic bonds and changes rules applicable to both domestic and international bonds issued by the Czech Republic. The amendment is currently pending approval by the Chamber of Deputies with the proposed effective date being 1 July 2012.

The Czech capital markets, like most such markets globally, experienced a substantial downturn in the second half of 2008, in particular following the collapse of Lehman Brothers in September 2008. The market suffered from reduced liquidity, market participants' loss of confidence in market counterparties and increased funding costs. This affected the domestic government bond market, causing increased volatility, reduced liquidity and an increase in credit spreads. In October 2008, the CNB introduced an additional repo facility, aimed at avoiding possible negative impacts of international market turbulence on the Czech financial sector. By the end of the first half of 2009, the crisis in confidence among financial market participants in the Czech financial sector had largely subsided.

Prague Stock Exchange

The Prague Stock Exchange (the "**PSE**") is the principal public securities market in the Czech Republic on which shares, bonds and unit certificates are traded. Since 2006 the PSE has also allowed the admission and trading of investments certificates, futures and warrants and launched derivatives trading.

In December 2008, Wiener Börse AG announced that it had completed the purchase of a 92.4 per cent. stake in the PSE. In July 2010, Centrální depozitář cenných papírů, a.s. (formerly UNIVYC, a.s.) ("**CDCP**"), a wholly-owned subsidiary of the PSE licensed to settle trades on the PSE, took over the activities of the Securities Centre, the former central register of dematerialised securities issued by Czech companies. As a result, since July 2010, the activities of CDCP also include the maintenance of the central register of dematerialised securities issued in the Czech Republic and the assignment of ISIN identification codes to investment securities.

On 1 December 2008, the RM-System, a former organiser of off-exchange trading, was converted into a stock exchange with the name "RM-System, Česká burza cenných papírů a.s." ("**RM-System**"). As a result, the RM-System became the second organiser of a regulated securities market in the Czech Republic. Trades through the RM-System can formally be placed only by investors meeting certain specified criteria or, alternatively, by or through securities brokers.

Investment Companies

As of 31 December 2011, a total of 58 entities were authorised to provide investment services on the Czech market, of which 22 were Czech non-bank investment firms, 12 Czech banks with investment firm licences, 14 non-Czech bank branches, 6 organisational units of non-Czech investment firms and 4 Czech investment companies managing assets of clients under contract. The total assets of the investment firms sector amounted to CZK 3,660.7 billion as of September 2011. However, this figure was mostly due to

assets of bank investment firms, which amounted to CZK 3,176.2 billion, and foreign bank branches, which amounted to CZK 462.2 billion.

Collective Investment Funds and Management Companies

In the Czech Republic, collective investment funds and management companies are operated under the provisions of the Czech Collective Investment Act. Under this act, investment funds may be created as an open-end mutual fund (UCITS), a specialised open-end mutual fund, a closed-end mutual fund or an investment company. Under the same act, mutual funds' assets are managed by management companies and investment companies are generally self-managed.

As of 31 December 2011, the CNB issued licenses for operation of 58 investment funds and 157 mutual funds. By the same date, there were 21 licensed management companies operating in the Czech Republic. As of September 2011, assets of open-end mutual funds open to the public amounted to CZK 112.1 billion.

Pension Funds

A total of nine pension funds were active in the private pension scheme market in the Czech Republic as of 31 December 2011. The market is highly concentrated, with the three largest pension funds administering more than 50 per cent. of planholders' funds. As of September 2011, total assets of private pension funds amounted to CZK 244.2 billion.

Treasury Securities and Eurobonds

CZK denominated treasury bonds and bills are sold in the Czech Republic to a selected group of banks and financial brokerage companies acting as primary dealers at regular auctions organised by the CNB. CZK denominated treasury bills are traded in the System for Trading of T-Bills organised by the CNB. CZK denominated treasury bonds are listed on the Prague Stock Exchange and settled through the CDCP.

In 2011, the MTS Group, a facilitator for the electronic fixed income markets across Europe, was mandated by the Czech Republic to launch an electronic platform for the interdealer market for Czech government bonds. As of 31 January 2012, 13 banks have so far joined the Czech government bonds market operating on the MTS Czech Republic platform and fulfilled the obligations set by the Ministry of Finance for participation in the market.

In addition to the CZK denominated treasury bonds and bills sold in the Czech Republic, the Government also issues Eurobonds under its EMTN program or on a stand-alone basis. These Eurobonds are placed either in the Czech Republic to a selected group of banks and financial brokerage companies acting as primary dealers at regular auctions organised by the CNB or abroad through appointed banks and financial brokerage companies acting as managers. Eurobonds issued by the Czech Republic are listed on foreign exchanges. As of the date of this Offering Circular, Eurobonds were listed on the Luxembourg Stock Exchange and the SIX Swiss Exchange.

The following table sets forth certain information with respect to the sale of treasury securities for the periods indicated.

	<u>2010</u>	<u>Q1 2011</u>	<u>Q2 2011</u>	<u>Q3 2011</u>	<u>Q4 2011</u>	<u>2011</u>
	<i>(nominal amount, CZK billions)</i>					
Gross sales of treasury securities						
Fixed rate treasury bonds	167.4	26.1	39.4	21.7	37.3	124.5
Treasury bills	169.1	49.1	67.1	59.5	61.4	237.0
Floating rate notes.....	0.0	13.3	17.3	14.6	10.5	55.8
Savings government bonds	0.0	0.0	0.0	0.0	20.4	20.4
Foreign issues of bonds.....	49.1	0.9	0.0	0.0	0.0	0.9
Placed in the Czech Republic.....	4.5	0.9	0.0	0.0	0.0	0.9
Placed outside the Czech Republic	44.6	0.0	0.0	0.0	0.0	0.0
Total.....	385.6	89.4	123.8	95.8	129.6	438.6

	2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	2011
	<i>(nominal amount, CZK billions)</i>					
Net sales of treasury securities						
Fixed rate treasury bonds	84.4	26.1	(12.4)	21.7	(13.0)	22.4
Treasury bills	25.1	24.2	3.5	2.2	19.3	49.3
Floating rate notes.....	0.0	13.3	17.3	14.6	8.5	53.8
Savings government bonds	0.0	0.0	0.0	0.0	20.4	20.4
Foreign issues of bonds.....	49.1	0.9	0.0	0.0	0.0	0.9
Placed in the Czech Republic.....	4.5	0.9	0.0	0.0	0.0	0.9
Placed outside the Czech Republic	44.6	0.0	0.0	0.0	0.0	0.0
Total.....	158.6	64.5	8.4	38.6	35.3	146.8

Source: Ministry of Finance.

In 2011, the Ministry of Finance carried out domestic auctions in indicated volumes due to yields on Czech government bonds declining throughout most of 2011. The Ministry of Finance has also issued inaugural savings bonds in the amount of CZK 20.4 billion to substitute its absence on foreign markets in 2011. Although spreads and yields on Czech government bonds increased in November 2011 as a result of the ongoing sovereign debt crisis in the euro zone, both spreads and yields have decreased towards previous levels since December 2011.

Insurance Market

As of 31 December 2011, there were 36 domestic insurance undertakings and 18 branches of EU insurance undertakings licensed to operate on the Czech insurance market. In addition to these insurers, insurance undertakings and branches thereof from other EEA member states may provide services on the Czech insurance market under the freedom to provide services. The number of such entities was 697 as of 31 December 2011. As of 30 September 2011, the total assets of all insurance undertakings amounted to CZK 430.9 billion, of which CZK 392.3 billion represented assets of Czech insurance undertakings.

PUBLIC FINANCE

Overview

Under European System of Account 1995 ("**ESA 95**"), the public finance system in the Czech Republic comprises the central government subsector, the local government subsector and social security funds, which together comprise the "**general government sector**". The rules defining the general government sector are harmonised internationally and its composition is updated regularly. The fiscal year applicable to the general government sector is the calendar year.

In order to comply with its European Union obligations, the Czech Republic has implemented procedures that enable it to produce general government sector data based on ESA 95 methodology and currently uses ESA 95 methodology for its fiscal accounting. The Czech Statistical Office is responsible for compiling such data, which are reported twice per year to Eurostat in accordance with the Council Regulation No. 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, as amended, and the Statements contained in the Council minutes of 22 November 1993.

The methodology that the Ministry of Finance uses to show general government budgets financial position in budgetary documentation is the methodology of the IMF, as set forth in the Manual on Government Finance Statistics, IMF 2001 (the "**GFS 2001**").

The GFS 2001 system is largely harmonised with the ESA 95 system, and their definitions of concepts are the same; however, differences exist between the two statistical systems. Generally, ESA 95 methodology monitors revenues and expenditures on an accrual basis, whereas GFS 2001 methodology monitors revenues and expenditure also on a cash basis. Standard GFS 2001 has been implemented and its statements have been compiled in the Czech Republic only on a cash basis so far. The most significant effects of using ESA 95 methodology to produce the Czech Republic's general government sector data stem from (i) flows on an accrual basis (i.e. when economic value is created, transformed or extinguished, or when claims and obligations arise or are transformed or cancelled) and (ii) the extension under ESA 95 of the definition of the general government sector.

General Government Sector

The following table sets forth the actual results of the general government sector of the Czech Republic (under ESA 95 methodology) for the years 2008 to 2011:

	Year ended 31 December			
	2008	2009	2010	2011 ⁽¹⁾
	<i>(CZK billions, except where noted otherwise)</i>			
Central government subsector				
State budget surplus (deficit)	(89.9)	(184.9)	(152.5)	(125)
Revenues.....	1,012.6	969.6	988.8	N/A*
Expenditures	1,102.6	1,154.5	1,141.3	N/A*
Local government subsector				
Local government budgets surplus (deficit)	(5.1)	(22.2)	(19.5)	(11.1)
Revenues.....	415.8	430.6	429.7	N/A*
Expenditures	420.9	452.8	449.2	N/A*
Social security funds				
Social security funds surplus (deficit)	10.0	(10.7)	(8.7)	(6.4)
Revenues.....	210.8	211.1	215.7	N/A*
Expenditures	200.8	221.8	224.4	N/A*
General government sector deficit				
Share of GDP.....	(2.2)	(5.8)	(4.8)	(3.7)
Revenues.....	1,498.6	1,462.0	1,484.5	1,555.6
Share of GDP.....	38.9	39.1	39.3	40.6
Expenditures	1,583.5	1,679.7	1,665.2	1,697.4

	Year ended 31 December			
	2008	2009	2010	2011 ⁽¹⁾
	<i>(CZK billions, except where noted otherwise)</i>			
Share of GDP.....	41.1	44.9	44.1	44.3
Derivatives adjustment.....	(1.0)	(0.9)	(2.0)	(0.7)

Source: Ministry of Finance. Certain numbers were restated retroactively.

⁽¹⁾ Ministry of Finance estimate.

* Data not available as of the date of this Offering Circular.

In 2011, the consolidated general government sector recorded a preliminary deficit of CZK 142.5 billion, representing 3.7 per cent. of GDP, which is 0.5 percentage points below the deficit target set in the Convergence Programme from April 2011.

State Budget

State Budgets 2008-2011

The following table sets forth, by category and selected sub-categories, the actual revenues and expenditures of the state budget (excluding the national fund consisting of funds entrusted by the European Union to the Czech Republic for the realisation of programmes and projects co-financed from the EU budget, funds provided to the Czech Republic by means of a transition facility in connection with its accession to the EU and funds entrusted to the Czech Republic under international treaties, and the former NPF operations) in the years 2008 to 2011 (under GFS 2001 methodology).

The state budget recorded deficits in each of the years from 2008 to 2011. The increase in the deficit to CZK 184.9 billion in 2009 was caused to a large extent by the slowdown in the economic performance of the main trade partners of the Czech Republic.

In response to the worsening economic outlook in the EU and the European Economic Recovery Plan (as agreed by the European Council on 11 and 12 December 2008 calling for a fiscal stimulus to be introduced both at the level of individual EU Member States and European institutions in an amount of approximately 1.5 per cent. of EU GDP), the previous Government adopted anti-crisis measures on 16 February 2009 consisting mainly of (i) lowering taxes for corporations and individuals and social insurance contributions; (ii) increasing investments in infrastructure, science and research; (iii) supporting exports. These measures amounted to approximately CZK 75 billion under ESA 95 methodology, representing approximately 2 per cent. of 2009 GDP. The effect of these measures, the recovery of the German economy and the reform effort of the Government focused on decreasing expenditures contributed to the decrease of deficit to 157.8 billion in 2010.

The Czech Republic was one of the first countries to commence an “exit strategy” and adopt a consolidation plan. The new Government professed budget responsibility in its Policy Statement in 2010, and one of its first steps in this respect was to tighten the medium-term expenditure frameworks and approve a state budget so that the total general government sector deficit does not exceed 3.0 per cent. of GDP by 2013.

	Year ended 31 December			
	2008	2009	2010	2011 ⁽¹⁾
	<i>(CZK billions)</i>			
Revenues				
Tax and social revenues.....	918.8	822.8	853.3	894.2
of which:				
Income tax.....	222.1	169.2	173.8	178.3
Social contributions.....	386.4	348.2	356.2	370.9
Property taxes.....	10.4	8.1	7.7	11.8
Taxes on goods and services	299.8	297.2	315.3	333.2
of which:				
Value added tax.....	172.2	172.1	183.2	190.1

	Year ended 31 December			
	2008	2009	2010	2011 ⁽¹⁾
	<i>(CZK billions)</i>			
Excise tax	125.5	123.8	130.9	140.2
Customs duties	0.0	0.0	0.0	0.0
Other tax revenue	0.0	0.2	0.1	0.1
Non-tax revenue	62.6	94.2	129.8	123.3
Sub-total (revenues)	981.4	917.0	983.1	1,017.6
Disposal of non-financial assets	1.1	1.2	1.6	1.4
Total revenues.....	982.5	918.2	984.7	1,019.0
Expenditures				
Compensation of employees.....	100.8	104.0	101.2	91.2
Expenditures on goods and services	67.4	76.2	67.2	59.3
Interest payments.....	40.9	46.3	38.5	51.6
Subsidies and current transfers	351.7	410.8	426.6	421.9
of which:				
Subsidies	271.3	323.8	340.7	331.3
of which:				
To public sector.....	244.1	294.6	310.2	300.3
Transfers abroad.....	27.2	29.2	30.5	31.0
Social transfers	400.9	429.4	431.0	446.2
Other expenditures	81.7	66.5	65.8	76.0
Sub-total (expenditures)	1,043.4	1,133.3	1,130.2	1,146.3
Acquisition of nonfinancial assets	19.6	19.0	12.3	9.5
Total expenditures.....	1,063.0	1,152.3	1,142.5	1,155.8
Deficit	(80.5)	(234.0)	(157.8)	(136.8)

Source: Ministry of Finance. Certain numbers were restated retroactively.

⁽¹⁾ Preliminary data.

According to the national methodology, the cash deficit for 2011 amounted to CZK 142.8 billion, representing an improvement compared to 2010. Although the 2011 deficit exceeded the target value of CZK 135 billion, the balance of national resources (i.e. after adjustment for EU funds) is CZK 5 billion below the plan. According to the estimate of the Ministry of Finance, the ESA 95 deficit will be below the target.

2012 State Budget

In December 2011, the Chamber of Deputies adopted the 2012 state budget, which provided for a deficit of CZK 105 billion, with revenues of CZK 1,084.7 billion and expenses of CZK 1,189.7 billion, in each case under the national methodology. The 2012 state budget was compiled based on an assumed GDP increase of 2.5 per cent. in 2012 as compared to 2011, in line with the Ministry of Finance's estimate in place at that time. The planned net borrowings under ESA 95 are projected to be 3.8 per cent. of GDP in 2012. This projection takes into account adverse economic development and lower GDP growth. The 2012 deficit under ESA 95 is estimated to be 0.3 per cent. above the target.

The following table sets forth, by category and selected sub-categories, the revised 2012 state budget forecast according to GFS 2001 methodology:

2012 State Budget Forecast

(CZK billions)

Revenues	
Tax and social revenues	935.7
of which:	
Income tax.....	177.7
Social contributions.....	384.1
Property tax.....	12.2
Tax on goods and services.....	361.6
of which:	
Value added tax.....	216.4
Excise tax.....	142.3
Customs duties.....	0.0
Other tax revenue.....	
Non-tax revenue.....	136.9
Sub-total (revenues)	1,072.5
Disposal of non-financial assets	1.2
Total revenues	1,073.7
Expenditures	
Compensation of employees.....	92.0
Expenditures on goods and services.....	65.9
Interest payments	72.9
Subsidies and current transfers.....	376.4
of which:	
Subsidies.....	283.2
of which:	
To public sector.....	249.5
Transfers abroad.....	33.7
Social transfers.....	491.7
Other expenditures	72.2
Sub-total (expenditures)	1,171.2
Acquisition of nonfinancial assets.....	9.0
Total expenditures.....	1,180.2
Deficit.....	(106.5)

Source: Ministry of Finance, Czech statistical office.

Revenues

The principal sources of revenue in the state budget of the Czech Republic are taxes and social contributions. Taxes include particularly VAT, corporate and personal income tax, excise taxes and property taxes. Social contributions consist of pension insurance, sickness insurance and contributions to the state employment policy. In addition, the sources of the state budget revenues include also certain non-tax items, such as revenues from EU funds, transfers and sale or lease of state property, and capital revenues.

In the Coalition Agreement, the coalition Government undertook to implement a number of tax measures, which may have an impact on future revenues of the state budget. See "*Pension, Social and Health Care Reforms*" below. There can be no assurance that the coalition Government will fulfil these undertakings.

In 2012, the Government approved certain tax measures in order to stabilise the deficit development. The most significant measures include an increase in the lower VAT rate by 4 percentage points and increases in taxes on tobacco products.

Expenditures

The largest portion of the total state budget expenditures has historically consisted of social transfers, which accounted for more than 40 per cent. of the total state budget expenditures in 2011.

Pursuant to the Coalition Agreement, the coalition Government undertook in previous years to implement certain measures aimed at reducing the state budget expenditure, including, among others: the reduction of the payroll in government departments and in organizations funded fully or partly from the public budget by one tenth (excluding teachers' salaries, which it intends to increase); the reduction of the overall level of remaining operating costs by one tenth, including the reduction of certain state debt service payments; the reduction of the salaries of parliamentarians in the Chamber of Deputies and other constitutional officials by another five per cent. and subjecting the allowances constituting a part of parliamentarians' income to taxation; the reduction of certain allowances paid to the political parties; the reduction of certain types of social benefits and the freezing of the sickness insurance compensation rate at 2010 levels; the temporary extension of the payment of sickness benefits by the employer; the abolishment and reduction of certain social allowances; and the reduction of government subsidies of building saving schemes by 50 per cent. The fiscal consolidation is estimated to reach at least 0.3 per cent. of GDP in 2012.

In addition, pursuant to the Coalition Agreement, the coalition Government intends to launch pension system and health insurance system reforms aimed primarily at reducing state budget expenditures to sustainable levels in the medium to long term. See "*Pension, Social and Health Care Reforms*" below.

There can be no assurance that the coalition Government will fulfil its above-mentioned undertakings and intentions specified in the Coalition Agreement.

General Government Sector Deficits under ESA 95 and Consolidation Programme

Since its accession to the EU in 2004, the Czech Republic has been obliged to observe the Maastricht euro convergence criteria, including the limit on the general government deficit under ESA 95 of three per cent. of GDP.

Based on the expected breach of the three per cent. limit in 2009, on 2 December 2009 the Council of the EU initiated an excessive deficit procedure with the Czech Republic and recommended that the Czech Republic should bring the general government deficit under ESA 95 (net borrowing of the general government sector) below the three per cent. limit in a credible and sustainable manner by 2013. This recommendation urged the Czech Republic particularly to: (i) implement measures aiming to limit the 2010 state budget deficit, as set out in the act on the 2010 state budget; (ii) ensure fiscal effort (i.e. a year-on-year change of the cyclically adjusted balance without one-off and temporary measures) for the period from 2010 to 2013 (in terms of improvement in the structural balance) at an average annual rate of one per cent. of GDP; (iii) specify measures necessary to remedy the excessive general government deficit under ESA 95 by 2013, cyclical conditions permitting; and (iv) accelerate the reduction of the government sector deficit under ESA 95 if economic and budgetary conditions turn out better than originally expected.

In response to the foregoing recommendation, the Czech Republic has implemented an austerity package including certain tax increases and benefit cuts in order to prevent further worsening of the fiscal situation in 2010. See "*State Budgets 2008-2011*" above. In addition, in accordance with the requirements of the EU's excessive deficit procedure, the previous Government prepared and approved a consolidation strategy for the following years of the outlook.

The main objective of the fiscal policy is to maintain the general government deficit under ESA 95 at 3.5 per cent. of GDP in 2012 and to achieve the general government deficit under ESA 95 of 2.9 per cent. in 2013. The Government has declared that the approved medium-term expenditure frameworks will not be exceeded and the objective for the general government deficits objective will be sustained, with the intention not to exceed 1.9 per cent. of GDP in 2014. The deficit trend has been established so that a

balanced budget of a general government sector will be achieved in 2016 allowing for the fulfilment of the medium-term objective of a structural deficit at 1 per cent. of GDP in 2016.

The current priorities of the Government are structural and long-term reforms to be reflected in the change of the general government sector balance in the short, medium, and long-term horizons. In recent months, parameters of the pension, social and health care system reforms are being discussed. See "*Pension, Social and Health Care Reforms*" below.

In the light of the assessment of the updated Convergence Programme from April 2011, the European Commission recommended to the Czech Republic to:

- (i) implement the planned consolidation in 2011 and take countervailing measures of a permanent nature in case of any revenue shortfalls or expenditure slippages; adopt fiscal measures as planned in the programme for 2012 and underpin the target for 2013 by more specific measures; avoid cutting expenditure on growth-enhancing items and exploit the available space for increases in indirect tax revenue, improve tax compliance, and reduce tax evasion; and
- (ii) introduce a comprehensive pension reform in order to improve the long-term sustainability of public finances and to ensure the future adequacy of pensions; focus the efforts, first, on further changes to the public pillar, including a more rapid increase in the statutory retirement age than planned, underpinned by measures promoting the employment of older workers, and, second, on the development of private savings; ensure that the envisaged funded scheme attracts broad participation and is designed to keep administrative costs transparent and low.

Pension, Social and Health Care Reforms

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

The pension budget fund recorded a deficit of almost CZK 36 billion as of the end of 2010. In 2011, the pension budget fund deficit is estimated at CZK 45.5 billion. As the population in the Czech Republic rapidly ages, the projected increase in the level of expenditure from the pension budget fund is expected to be more than 175 per cent. by 2060. Similarly, the public health insurance budget fund regularly records deficits. The deficits of the pension budget fund and the public health insurance budget fund are refunded from the government budget. Social requirements, including health insurance, are affected largely by demographic changes. In particular, maintaining the present pension system is a fiscal burden. As a result, it has become necessary to implement pension and health insurance reforms in order to ensure long term fiscal sustainability.

Since 2006, the major political parties have been announcing post-election plans to implement pension reforms. At the beginning of 2010, the previous Government re-appointed the independent expert team to analyse the current structural pension problems and propose alternative solutions. The expert team published its final report in June 2010 (the "**Report**").

In April 2010, the Constitutional Court ruled that the calculation of old-age pensions are discriminatory against people with high incomes and must be changed prior to September 2011. Even though the Constitutional Court estimated that only approximately 5,000 to 8,000 people are affected by the unfair pension system, some experts believe that the actual number is much higher and, therefore, this ruling may lead to significant increase in government expenditures. The verdict has had the benefit of putting some pressure on reforming the pension system. As a result, the Parliament has approved an amendment to the Czech Pension Insurance Act (so called a "minor pension reform") making the proportion between payments into the system and the pension received fairer and amending the rules in respect of the retirement age. The amendment to the Czech Pension Insurance Act has been in force since 30 September 2011.

At the end of 2010 and during the course of 2011, several meetings were convened by the Czech Republic's Economic Ministers to discuss the principles of the pension reforms. The meetings helped to reach a consensus position on the principles of the pension system reform, based on a slightly modified

Report. The consensus position was confirmed by the Government as a proposal for the pension system reform. The proposal has subsequently been approved by the Parliament and will come into force as of 1 January 2013.

The approved pension system reform is based on the creation of three pillars. The first pillar, as in the Report, would consist of a reformed mandatory "pay-as-you-go" existing state system which is based on insurance contributions in an amount set out by the Czech Pension Insurance Act.

The second pillar would be based on a voluntary system available to citizens under 35 years of age. Citizens older than 35 years of age would also be given the opportunity to enter the system within an initial six months period. After entering the second pillar system, the participant could not withdraw from it. The contributions to the second pillar would consist of 3 per cent. from the mandatory insurance payments under the first pillar (the "**Opt-out**") plus additional 2 per cent. contributed by the participant in the second pillar. Consequently the contributions of these participants would be 25 per cent. to the first pillar and 5 per cent. to the second pillar. The contributions would be held by pension companies (being the reformed current pension funds). Creation of the second pillar is connected with "transformation costs" caused by the Opt-out from the first pillar to the second pillar. The costs shall be covered primarily from proceeds arising as a result of the VAT rate unification.

The third pillar consists of a voluntary pension insurance system reformed mainly in its structural aspects. Current pension funds would be transformed on the basis of their project of transformation which would have to contain the application to the CNB for a pension company licence. The contributions to the third pillar would be supported by the state in the form of additional state contributions and tax reliefs.

Currently, the Czech Republic has a system of public health insurance based on mandatory membership in one of a number of health insurance funds. The majority of total health expenditure is covered by the public health insurance system, which is financed primarily by mandatory health insurance contributions and by state health insurance contributions on behalf of certain groups of economically inactive people. Mandatory health insurance contributions take the form of a payroll withholding split between employers and employees. Self-employed individuals must contribute a fixed percentage of their profits. Pursuant to the Coalition Agreement, the coalition Government intends to reform the health system by implementing a number of measures, including: the setting up of an expert committee with the task to continue a public debate on the health care reform; the defining of the scope of health care covered by public health insurance system based on medical criteria and capacity of the health insurance system, and introduction of a system in which patients would pay for that part of health care which is not covered by public health insurance; the categorization of medical devices and specification of their coverage by the public health insurance on the principle that same coverage will be provided in respect of medical devices with the same effect; and adjustment of certain regulatory fees paid by patients.

The tax system is another aspect of public finance that the former Governments had planned to transform within the years of their term of office. The Coalition Agreement provides that the Government shall implement a number of tax measures, including the abolishment of most of the existing income tax exemptions, realignment of inheritance and gift tax under income tax, introduction of higher taxation for lotteries and all gambling, abolishment of the obligation to pay road tax for company cars, change of taxation of capital gains from the sale of securities and extension of the period in which the tax authorities may perform a tax audit and assess additional tax from the current three to five years. Additionally, in the Coalition Agreement, the parties forming the coalition Government also stated that the coalition Government will be reluctant to increase personal income tax progression, but it is determined to eliminate degression of the above social and health insurance contribution ceilings in connection with the contemplated pension reform and contemplated introduction of a new income tax act.

In case of the above tax reform, the currently proposed implementation date has been postponed until the beginning of 2015 due to the complexity of the changes and related political debates. Only some tax changes have been implemented already as of January 2012 (such as increases in the VAT rates and taxation of lotteries and gambling).

PUBLIC DEBT

Overview

For reporting purposes relating to external and internal debt, the Czech Republic classifies as public debt only debt incurred directly by the state ("**state debt**"), by local governments and by other entities within the general government sector. Collectively, such public debt is referred to as "**general government debt**". The general government debt includes neither debt incurred by state-owned financial institutions or other state-owned enterprises nor debt incurred by the CNB.

General Government Debt

The general government debt of the Czech Republic calculated under ESA 95 methodology is estimated to reach CZK 1,560.4 billion at the end of 2011, representing 40.7 per cent. of GDP. Compared to 31 December 2010, the general government debt under ESA 95 methodology grew by approximately CZK 143 billion in 2011. In 2012, the general government debt is expected to reach 1,689.7 billion, which is 43.1 per cent. of GDP.

In accordance with ESA 95 methodology, some imputed loans, which are not connected with real financial instruments, are included in general government debt (e.g. liabilities associated with government guarantees or financial leasing).

The following table sets forth information on the general government debt of the Czech Republic under ESA 95 methodology as of the dates indicated:

	As of 31 December				
	2008	2009	2010	2011 ⁽¹⁾	2012 ⁽²⁾
	<i>(CZK billion, except otherwise noted)</i>				
General government debt.....	1,104.9	1,282.3	1,417.7	1,560.4	1,689.7
as per cent. of GDP.....	28.7	34.3	37.6	40.7	43.1
Central government debt.....	1,016.1	1,186.6	1,323.5	1,465.6	N/A*
as per cent. of GDP.....	26.4	31.7	35.1	38.2	N/A*
Local government debt.....	91.9	98.2	96.8	98.5	N/A*
as per cent. of GDP.....	2.4	2.6	2.6	2.6	N/A*
Social security funds debt.....	0.1	0.0	0.0	0.0	N/A*
as per cent. of GDP.....	0.1	0.0	0.0	0.0	N/A*

Source: Ministry of Finance, Czech Statistical Office. Certain numbers were restated retroactively.

⁽¹⁾ Ministry of Finance estimate.

⁽²⁾ Ministry of Finance forecast.

* Data not available as of the date of this Offering Circular.

State Debt

The following table sets forth information on the state debt of the Czech Republic as of the dates indicated:

	As of 31 December			
	2008	2009	2010	2011
	<i>(CZK billions, except otherwise noted)</i>			
State debt.....	999.8	1,178.2	1,344.1	1,499.4
as per cent. of GDP.....	26.0	31.5	35.6	39.1 ⁽¹⁾
Internal portion.....	814.3	926.8	1,036.3	1,182.2
Fixed rate treasury bonds.....	707.6	746.2	830.6	853.0
Treasury bills.....	78.7	88.2	113.3	162.6
Floating rate notes.....	27.9	92.4	92.4	146.2
Short-term loans.....	0.0	0.0	0.0	0.0

As of 31 December				
	2008	2009	2010	2011
	<i>(CZK billions, except otherwise noted)</i>			
Savings government bonds	0.0	0.0	0.0	20.4
External portion	185.5	251.5	307.8	317.2
Foreign bond issues	137.9	186.1	233.7	238.0
Floating rate notes	0.0	6.9	6.6	7.7
Promissory notes ⁽²⁾	0.8	0.6	0.3	0.1
Loans from European Investment Bank	46.8	57.9	67.2	71.3
	<i>(per cent. of state debt)</i>			
Internal portion	81.4	78.7	77.1	78.8
Fixed rate treasury bonds	70.8	63.3	61.8	56.9
Treasury bills	7.9	7.5	8.4	10.8
Floating rate notes	2.8	7.8	6.8	9.7
Short-term loans	0.0	0.0	0.0	0.0
Savings government bonds	0.0	0.0	0.0	1.4
External portion	18.6	21.3	22.9	21.2
Foreign bond issues	13.8	15.8	17.4	15.9
Floating rate notes	0.0	0.6	0.5	0.5
Promissory notes ⁽²⁾	0.1	0.0	0.0	0.0
Loans from European Investment Bank	4.7	4.9	5.0	4.8

Source: Ministry of Finance.

⁽¹⁾ Ministry of Finance estimate.

⁽²⁾ This category includes promissory notes for IBRD and EBRD memberships and notes issued to other foreign financial institutions.

The Ministry of Finance classifies debt as internal or external according to two criteria: the place of issue and residence of the targeted investors. On the basis of the first of these criteria, all instruments issued in the domestic market regardless of the status of their holder (domestic or foreign) are classified as internal debt and on the basis of the second, all instruments, regardless of the market in which they are issued, are classified as external or internal according to the residence of the holder.

Debt Service

The following table sets forth information on state debt service for the periods indicated:

Year ended 31 December				
	2008	2009	2010	2011
	<i>(CZK millions, except otherwise noted)</i>			
Principal repayments ⁽¹⁾	84,786	100,838	84,055	105,204
Interest payments (gross)	44,600	51,999	48,521	55,481
Interest revenues	7,024	7,639	12,894	10,506
Net interest payments	37,576	44,360	35,627	44,975
Fees	132	341	219	152
Realised exchange rate profit ⁽²⁾	(63)	(238)	(5)	0
Total state debt service	122,431	145,301	119,896	150,331
Debt service (excluding principal repayments) as per cent. of state budget expenditures	3.5	3.8	3.1	3.9

Source: Ministry of Finance.

⁽¹⁾ Excluding principal repayments of treasury bills, repo and depo operations on money market and including buy-backs of treasury bonds.

⁽²⁾ Data stated on a net basis.

The following table sets forth the schedule of repayments on government bonds (which include neither treasury bills, repo and depo operations on money market, nor issuance and buy-backs of treasury bonds planned for the rest of 2012) and external loans from the European Investment Bank (the "EIB") (which do not include drawdowns planned for the rest of 2012) of the Czech Republic as of 8 February 2012 for the periods indicated. The amounts set forth in the table do not include any repayments of promissory notes issued by the Czech Republic to IBRD for its membership.

	Total principal repayment	Internal principal repayment	External principal repayment
	<i>(CZK millions)</i>		
2012.....	126,282	123,149	3,134
2013.....	109,685	108,551	1,134
2014.....	135,050	46,908	88,143
2015.....	128,284	118,709	9,574
2016.....	135,974	123,649	12,326
2017.....	104,327	100,407	3,920
2018.....	102,929	47,035	55,894
2019.....	94,155	89,100	5,055
2020 and thereafter	422,594	290,126	132,468

Source: Ministry of Finance.

Debt Management Strategy

The Ministry of Finance is responsible for pursuing the state debt management policy, the main objective of which is to cover the borrowing needs and payment obligations of the state while reaching the lowest possible debt service costs in the medium-term and long-term horizon and at a reasonable risk level. The Ministry of Finance manages state debt using strategic targets and limits set forth by the Ministry of Finance on the basis of its own financial analyses of the state debt portfolio. The borrowing requirements, annual funding program and targets for the debt portfolio management of the Czech Republic for the coming year are specified in the funding and debt management strategy published by the Ministry of Finance at the beginning of December of each year.

Refinancing and interest rate risks are currently the primary focus of the Czech Republic's debt portfolio management.

Currency Exchange Rate Risk

State debt is predominantly denominated in CZK. The portion of state debt that is denominated in EUR is largely hedged using derivatives and therefore the exposure to currency risk is low. Since the beginning of 2011, the Ministry of Finance has been actively managing the exchange rate risk. The limitation on the share of foreign currency debt on the total debt has been set at 15 per cent., although the limit can be increased to 17 per cent. for a short period of time. The exposure of the debt portfolio to exchange rate risk was relatively low with the share of foreign currency debt on the total debt being 9.2 per cent. at the end of 2011.

Refinancing Risk

In order to manage refinancing risk the Ministry of Finance uses four key tools: (i) diversifying of redemption profile; (ii) targeting a portion of short-term state debt as a proportion of total debt; (iii) targeting a portion of mid-term state debt as a proportion of total debt; and (iv) average time to maturity.

To ensure that current and future funding needs arising from refinancing of the maturing debt as well as new government funding can always be met, the Ministry of Finance regularly controls how much debt is maturing in any particular period of time. The Ministry of Finance diversifies the redemption profile over the maturities. The maximum amount maturing each year in a medium-term horizon is currently expected to be at CZK 140 billion.

Since the beginning of 2004, the Ministry of Finance controls its exposure to debt with short term maturity, i.e. debt with a maturity of up to one year as a proportion of total debt. The target for 2007 to 2011 was set at 20 per cent. or less. The target for 2012 was set at 25 per cent. or less.

As of 31 December 2008, the indicator reached 17.8 per cent., as of 31 December 2009 the indicator was 14.7 per cent., as of 31 December 2010 the indicator was 16.1 per cent. and as of 31 December 2011 the indicator was 19.3 per cent.

Since the beginning of 2012, the Ministry of Finance controls its exposure to debt with medium-term maturity, i.e. debt with a maturity of up to five years as a proportion of total debt. The target for 2012 was set at 70 per cent. or less. As of 31 December 2011, the indicator reached 52.4 per cent.

Since 2005, the average time to maturity of state debt has been the additional indicator employed in managing refinancing risk. In 2009, the target range was 5.5 to 7.0 years. The average time to maturity of the state debt decreased from 6.5 years as of 31 December 2009 to 6.3 as of 31 December 2010, and remained within the target band of 5.5 to 7.0 years announced for 2010. As of 31 December 2011, the average time to maturity was 5.8 years, which is within the target band of 5.25 to 6.25 years announced for 2011. The target band of 5.0 to 6.0 years has been announced for 2012.

Interest Rate Risk

Since 2006, the Ministry of Finance has been setting a strategic goal for interest re-fixing of the short term debt portfolio, meaning the share of the debt sensitive to the fluctuation of interest rates on the financial market in the following year. The Ministry of Finance has announced its commitment to keep this indicator within the range of 30 to 40 per cent. The target has been derived from the macro-finance model and cost-risk trade-off point of view in the medium-term horizon.

The targeted band was reached in 2009. As of 31 December 2009, this indicator was 30.5 per cent. (including derivative operations). The indicator then increased to 31.7 per cent. as of 31 December 2010 and increased to 34.5 per cent. as of 31 December 2011, remaining within the established target band. The target band remains unchanged for 2012.

At the beginning of 2011, the Ministry of Finance announced the average period until re-fixing of state debt as a new indicator for the management of market risk and announced a target for the indicator of 4 to 5 years. The target was set based on the international practice and the optimization of costs of state debt with risks stemming from the re-fixing of rates taken into consideration. As of 31 December 2011, the indicator was 4.6 years. In line with the longer-term strategy, the target remains unchanged for 2012.

Derivatives

Since 2002, the Czech Republic has been using derivatives as part of its debt management strategy. Individual transactions are executed by the debt and financial assets management department of the Ministry of Finance based on ISDA framework agreements concluded with major banking counterparties. The Ministry of Finance uses derivative instruments only for hedging of existing risks, as opposed to using them for speculative purposes.

Government Guarantees

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

As of 31 December 2011 the aggregate amount of liabilities covered by outstanding state guarantees (other than guarantees set forth in special laws) was CZK 186 billion. As of 31 December 2011, these guarantees comprised:

- guarantees relating to infrastructure projects, including the construction of railway corridors, highways and municipality infrastructure. As of 31 December 2011, the aggregate outstanding amount of these guarantees was approximately CZK 24 billion;
- guarantees relating to the consolidation of the Czech banking system, including guarantees issued in relation to the restructuring of IPB. As of 31 December 2011, the aggregate outstanding amount of these guarantees was approximately CZK 155 billion; and
- guarantees issued in respect of various other projects, including the construction of a congress centre, a water utilisation programme and removal of damage caused by floods. As of 31 December 2011, the aggregate outstanding amount of these guarantees was approximately CZK 8 billion.

Existing guarantees by the Czech Republic which have been called upon for payment include mainly the guarantee granted by the Ministry of Finance to the CNB in relation to the CSOB's purchase of the ailing Czech bank IPB in 2000. The state's liability is limited, both in terms of the maximum amount (CZK 160 billion) and in terms of duration (the guarantee expires in 2016).

Due to uncertainty concerning the amount of the guarantee the government deficit is influenced only by expenditure realised in connection with the individual payments arising in connection with this guarantee and based on discussions with Eurostat, the contingent liabilities related to IPB are not reflected in the debt figures. The guarantee is not considered a high risk guarantee, since 2001 only less than 2 per cent. of the total maximum amount of the guarantee of CZK 160 billion has been paid by the Ministry of Finance under the guarantee. The obligation of the Ministry of Finance to make a payment under the guarantee also depends on court judgments issued in respect of individual claims made under the guarantee.

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

Relationship with Multilateral Financial Institutions

The Czech Republic has received several loans from the EIB to help finance infrastructure projects, flood-related measures and other projects. Currently, there are 15 loan agreements in place between the Czech Republic and the EIB with an aggregate principal amount of EUR 3.329 billion. As of 31 December 2011, the total outstanding principal amount of the loans drawn by the Czech Republic under these loan agreements was EUR 2.764 billion.

In addition to the 15 loan agreements described above, in October 2009, the Czech Republic entered into a funding agreement with the EIB, pursuant to which the EIB agreed to purchase Czech Republic treasury bonds denominated in Czech koruna in an aggregate amount of up to CZK 12.5 billion to co-finance certain public investment programmes. Under this agreement, the Czech Republic has an obligation to repurchase the bonds in certain circumstances. As of December 2011, no such circumstances had occurred.

In addition, in December 2009, the EIB and the Czech Republic entered into a funding agreement whereby the Czech Republic agreed to make available to the EIB and the EIB agreed to consider purchasing Czech Republic treasury bonds in an amount up to CZK 7 billion issued from time to time by the Czech Republic in order to part-finance a wide range of measures to restore infrastructure in four affected Czech regions after the floods of June and July 2009. In August 2010, the purpose and the scope of this funding agreement was extended to CZK 10 billion to cover also the restoration after the floods of May and June 2010.

The Czech Republic has issued promissory notes to the IBRD as payment for its membership in these institutions. As of 31 December 2011, the aggregate principal amount of these promissory notes was USD 6.8 million.

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

On 20 April 2009, the Government approved a EUR 1.03 billion loan to the IMF. The Ministry of Finance asked the CNB to provide this loan from the Czech Republic's foreign exchange reserves. In April 2010 the CNB and the Ministry of Finance entered into an agreement with the IMF for this loan. So far, the IMF has drawn down EUR 134 million in 7 tranches from April to December 2011. The Czech Republic is not among the countries receiving financial assistance from the IMF in connection with the global economic downturn.

On 25 January 2012, the Government approved EUR 1.5 billion loan to the IMF. The Ministry of Finance has asked the CNB to provide with this loan from the Czech Republic's foreign exchange reserves. The CNB has agreed to provide the loan subject to the Parliament's approval of EUR 2.53 billion state guarantee for the EUR 1.03 billion loan that has already been provided to the IMF as well as for the EUR 1.5 billion loan newly approved by the Government. As of the date of this Offering Circular, the Parliament has yet not approved the state guarantee.

Credit Ratings

On 15 April 2010, Moody's confirmed in its annual sovereign report the rating of the Czech Republic as A1 with stable outlook.

On 16 April 2010, Standard & Poor's published its full analysis of the Czech Republic, in which it conferred "rating A with stable outlook" on the Czech Republic.

On 4 June 2010, Fitch revised the Czech Republic sovereign rating outlook to "positive" from "stable", while confirming the long-term foreign currency issuer default rating at the level of A+.

On 10 August 2010, Standard & Poor's revised its outlook on the Czech Republic to "positive" from "stable".

On 25 July 2011, Fitch confirmed the Czech Republic's long-term foreign currency issuer default rating at the level of A+ with a "positive" sovereign rating outlook.

On 4 August 2011, Moody's confirmed the Czech Republic's foreign and local currency government bond ratings at the level of A1. The outlook on these ratings remains stable.

On 24 August 2011, Standard & Poor's raised the Czech Republic's credit rating by two notches, from A to AA- with a "stable" outlook, saying the move reflected a change in methodology as well as fiscal reforms.

On 13 December 2011, Fitch revised its sovereign rating outlook on the long-term foreign and local currency issuer default ratings of the Czech Republic, together with those of other European countries, from "positive" to "stable" due to deterioration in the European economic and financial outlook.

INTERNATIONAL INVESTMENT POSITION AND GROSS EXTERNAL DEBT

The following table sets out certain information on international investment position (“IIP”) of the Czech Republic as of the dates indicated:

	As of 31 December			As of 30 September
	2008	2009	2010	2011 ⁽¹⁾
	<i>(per cent. of GDP)</i>			
Total International investment position	(40.1)	(46.2)	(49.0)	(51.7)
International reserves	18.6	20.4	21.1	19.7
FDI	(50.6)	(54.5)	(56.8)	(57.8)
Portfolio investments.....	(0.1)	(5.3)	(8.8)	(8.8)
Debt portfolio investments	(0.3)	(4.6)	(8.9)	(8.9)
Other capital.....	(8.0)	(7.0)	(4.9)	(5.2)
Banks (inc. CNB)	1.1	2.0	2.3	1.2
Government.....	(1.2)	(1.6)	(2.0)	(2.0)
Private non-financial	(8.0)	(7.4)	(5.2)	(4.5)
<i>Memo:</i>				
Nominal GDP (EUR billions)	154.3	141.4	149.4	N/A*

Source: Czech Statistical Office, CNB.

⁽¹⁾ Calculation based on a sum of GDP (in current prices) from the fourth quarter 2010 to the third quarter 2011.

* Data not available as of the date of this Offering Circular.

IIP has been negative in recent three years, widening from EUR 57.4 billion in 2008 to EUR 79.7 billion in the third quarter 2011. Large stock of FDI, accounting for EUR 101 billion from 1993 to 30 September 2011, and an inflow of debt portfolio investments in recent years have been the major contributors to negative IIP. The banking sector has been a net external creditor.

The following table sets out the external debt of public and private institutions in the Czech Republic, including the Government, from 2008 to 2011:

	As of 31 December			
	2008	2009	2010	2011
	<i>(EUR millions)</i>			
Government	11,081.7	13,933.2	18,534.8	18,838.1
Short-term	102.6	181.0	562.3	629.3
Money market notes	102.6	181.0	562.3	629.3
Loans.....	-	-	-	-
Trade credits.....	-	-	-	-
Other debt liabilities	-	-	-	-
Long-term	10,979.1	13,752.2	17,972.5	18,208.7
Bonds and notes	8,124.1	10,373.2	13,786.2	13,945.3
Loans.....	2,585.9	3,161.8	4,019.6	4,156.0
Trade credits.....	269.2	217.2	166.8	107.4
Other debt liabilities	-	-	-	-
Monetary authorities (CNB)	66.3	141.7	150.4	68.1
Short-term	66.3	141.7	150.4	68.1
Money market notes	-	-	-	-
Loans.....	-	-	-	-
Currency and deposit.....	66.3	141.7	150.4	68.1

	As of 31 December			
	2008	2009	2010	2011
	<i>(EUR millions)</i>			
Other debt liabilities	-	-	-	-
Long-term	0.0	0.0	0.0	0.0
Bonds and notes	-	-	-	-
Loans.....	-	-	-	-
Currency and deposit.....	-	-	-	-
Other debt liabilities	-	-	-	-
Banks.....	17,913.2	15,504.7	17,891.0	19,920.5
Short-term	12,454.3	10,106.7	11,759.6	13,815.2
Money market notes	95.1	18.8	8.0	369.5
Loans.....	1,806.4	773.6	784.1	1,081.4
Currency and deposits	9,962.0	8,685.7	10,108.7	11,113.9
Other debt liabilities	590.8	628.6	858.8	1,250.4
Long-term	5,458.8	5,398.0	6,131.4	6,105.2
Bonds and notes	974.3	1,472.7	1,908.4	1,746.9
Loans.....	3,513.8	3,250.4	3,473.2	3,489.5
Currency and deposits	955.6	644.1	723.6	842.8
Other debt liabilities	15.1	30.9	26.2	26.0
Other sectors	22,575.7	23,779.6	25,178.7	26,631.9
Short-term	7,007.2	6,414.7	6,167.7	7,789.1
Money market notes	4.1	13.1	0.9	1.3
Loans.....	2,884.1	2,548.6	2,604.9	2,580.0
Currency and deposits	-	-	-	-
Trade credits.....	4,118.9	3,853.0	3,561.9	5,207.8
Other debt liabilities	-	-	-	-
Long-term	15,568.5	17,364.9	19,011.1	18,842.7
Bonds and notes	2,891.4	4,712.3	6,940.6	7,464.3
Loans.....	11,858.2	12,117.7	11,691.9	11,038.1
Currency and deposits	-	-	-	-
Trade credits.....	578.9	441.7	359.9	340.3
Other debt liabilities	240.1	93.2	18.6	0.0
Direct investment: Intercompany lending	8,873.6	8,580.9	9,624.3	9,796.4
Debt liabilities to affiliated enterprises	-	-	-	-
Debt liabilities to direct investors	8,873.6	8,580.9	9,624.3	9,796.4
Gross external debt	60,510.5	61,940.0	71,379.3	75,254.9

Source: CNB. Certain numbers were restated retroactively.

The external debt has increased from approximately EUR 61 billion as of 31 December 2008 to approximately EUR 75 billion as of 31 December 2011. The increase in external indebtedness has occurred across all three main sectors, including the Government as well as banks (including the CNB) and non-financial private sector. The relatively stable share of short-term debt has been close to 30 per cent. of total external debt and fully covered by international reserves.

The following table sets out certain information on external debt of the Czech Republic as of the dates indicated:

	As of 31 December			As of
	2008	2009	2010	30 September
	<i>(per cent. of GDP)</i>			
External debt.....	42.3	43.8	47.4	48.8

	As of 31 December			As of
	2008	2009	2010	30 September
				2011 ⁽¹⁾
	<i>(per cent. of GDP)</i>			
Short-term external debt	13.6	11.7	12.3	14.5
International reserves	18.6	20.4	21.1	19.7
External debt – Banks (incl. CNB).....	12.6	11.1	12.0	13.0
External debt - Government	7.8	9.9	12.3	12.2
External debt – Private Non-financial	22.0	22.9	23.1	23.6
<i>Memo:</i>				
Nominal GDP (EUR billions)	154.3	141.4	149.4	N/A*

Source: Czech Statistical Office, CNB.

⁽¹⁾ Calculation based on a sum of GDP (in current prices) from the fourth quarter 2010 to the third quarter 2011.

* Data not available as of the date of this Offering Circular.

The following table sets forth the composition of gross external debt by type of creditor in accordance with the CNB methodology as of the dates indicated:

	As of 31 December			As of
	2008	2009	2010	30 September
				2011
	<i>(EUR millions)</i>			
Debt in convertible currencies of which	60,510.5	61,940.0	71,379.3	75,254.9
Long-term.....	41,061.0	45,373.3	52,784.2	52,889.5
by debtor:				
CNB	-	-	-	-
Commercial banks.....	5,458.8	5,398.0	6,131.4	6,105.2
Government.....	10,979.1	13,752.2	17,972.5	18,208.7
Other sectors.....	24,623.0	26,223.1	28,680.2	28,575.5
by creditor:				
Foreign banks	14,062.5	13,834.7	12,828.8	12,082.8
Government.....	269.2	217.2	166.8	107.4
Multilateral institutions	4,532.8	5,281.0	6,951.7	7,278.1
Suppliers and direct investors	9,633.4	9,299.9	10,029.1	10,073.1
Other investors	12,451.6	16,740.5	22,807.9	23,348.1
Short-term by debtor:	19,449.6	16,566.7	18,595.1	22,365.4
CNB	66.3	141.7	150.4	68.1
Commercial banks.....	12,454.4	10,106.7	11,759.6	13,815.2
Government.....	102.6	181.0	562.3	629.3
Other sectors.....	6,826.3	6,137.4	6,122.9	7,852.7
by creditor:				
Foreign banks	12,022.4	9,956.2	10,976.1	12,797.6
Multilateral institutions	57.2	108.7	129.2	66.9
Suppliers and direct investors	3,227.9	3,575.7	3,517.1	5,271.4
Other investors	3,431.9	2,926.2	3,972.6	4,229.5
Debt in non-convertible currencies of which:	0.0	0.0	0.0	0.0
Long-term.....	-	-	-	-
Short-term	-	-	-	-
Total external debt of which:	60,510.5	61,940.0	71,379.3	75,254.9

	As of 31 December			As of
	2008	2009	2010	30 September
	<i>(EUR millions)</i>			
Long-term	41,061.0	45,373.3	52,784.2	52,889.5
Short-term.....	19,449.6	16,566.7	18,595.1	22,365.4
Total external long-term debt.....	40,949.6	45,373.3	52,784.2	52,889.5
use of IMF credits	-	-	-	-
Public and publicly guaranteed debt	15,932.8	20,356.2	26,741.6	27,514.8
Private non-guaranteed debt.....	25,016.7	25,017.1	26,042.6	25,374.7

Source: CNB. Certain numbers were restated retroactively.

CZECH LEGAL MATTERS

Governing Law

The Terms and Conditions of the Notes provide, inter alia, that the Notes are governed by, and shall be construed in accordance with, English law.

In any proceedings taken in the Czech Republic for the enforcement of the obligations of the Issuer under the Notes, the Czech courts should recognize the choice of English law as the governing law of the Notes subject to, among others, the following provisions of Regulation (EC) No 593/2008 of the European Parliament and of the Council on the law applicable to contractual obligations (the "**Rome I Regulation**"):

- (a) a Czech court may not apply English laws if to do so would be contrary to public policy or overriding mandatory rules of Czech law;
- (b) a Czech court may give effect to mandatory rules of law of the country where the obligations arising out of the contract have to be or have been performed, in so far those overriding mandatory provisions render performance of the contract unlawful. In considering whether to give effect to those provisions, regard shall be given to their nature and purpose and to the consequences of their application or non-application;
- (c) if all other elements relevant to the situation at the time of the choice of governing law are located in a country other than the country chosen, the choice of English law will not prejudice the application of rules of law of that country which cannot be derogated from by contract.

The Rome I Regulation shall not apply to obligations arising under the Notes to the extent that the obligations under the Notes arise out of their negotiable character. To the extent that the Rome I Regulation does not apply to the Notes, provisions of Act No. 97/1963 Coll., on international private and procedural law, as amended (the "**IPPL Act**"), may apply.

The IPPL Act provides that the issue of (i) whether a security is validly issued; (ii) whether rights attached to the security are, given its nature, incorporated in that security in such a manner that the rights cannot be exercised without the security itself during the period of its validity; and (iii) what rights and what legal effects are attached to the security, shall be governed, according to the nature of the security:

- (a) by the law governing the legal capacity and internal relationships of the issuer;
- (b) by the law governing the legal relationship on the basis of which the security is issued;
- (c) by the law valid in the place where the security was issued;
- (d) by the law of the country in which the issuer has its registered seat unless application of a different law correspond to the nature of the security; or
- (e) by the law determined in the security, if the nature of the security allows so.

Under the IPPL Act, a transfer of the title to a security shall be governed by the law valid where a transaction in the security takes place unless law implies otherwise. Also, a transaction shall be governed by the law of the country in which evidence is kept whereby such evidence establishes the ownership of a security upon a record made in favour of the acquirer of the security based on the transaction. A choice of another law is only permitted if it is the law of the country in which the entity keeping the evidence has its registered seat or branch at the time of the choice of the law provided that the record-keeping is part of the usual activity of that entity.

In November 2011, the Government has proposed an amendment to the IPPL Act, which clarifies the above conflict of laws rules. The amendment is currently pending approval by the Chamber of Deputies with the proposed effective date being 1 July 2012.

Enforcement of judgments in the Czech Republic

The Terms and Conditions of the Notes provide, *inter alia*, that the courts of England shall have jurisdiction to hear and determine any suit, action, proceeding or dispute, or to settle any disputes, which arise out of or in connection with the Programme and/or the Notes issued thereunder. The Issuer has appointed the Ambassador of the Czech Republic to the United Kingdom at the Embassy of the Czech Republic currently located at 26-30 Kensington Palace Gardens, London W8 4QY, as agent for the service of process in England.

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

Foreign entities are able to bring civil proceedings in the Czech courts against a Czech citizen or a Czech legal entity. Czech judicial procedures will apply and a judgment of the Czech court will be enforceable in the Czech Republic, subject to certain statutory limitations on the ability of judgment creditors to execute a judgment by protecting certain assets from forced sale.

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

TAXATION

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

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

Interest

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

Interest income from the Notes realised by an individual who is for tax purposes treated as a resident of the Czech Republic or a person other than an individual which is for tax purposes treated as a resident of the Czech Republic or an organisational unit of the Czech state (together, “**Czech Holders**”) is not subject to any Czech withholding tax. However, such income should be declared by the Czech Holders in their annual tax returns and ordinary Czech corporate (19 per cent. in 2012) or personal (15 per cent. in 2012) income tax, as applicable, must be paid.

Capital Gains

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

Income realised by Non-Czech Holders, not holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes (a) to a Czech Holder or (b) to a Czech permanent establishment of another Non-Czech Holder will be subject to taxation in the Czech Republic unless:

- (i) the Non-Czech Holder realising the income is resident in a country within the meaning of a double taxation treaty between that country and the Czech Republic, pursuant to the terms of which the Czech Republic may not impose any income or capital gains tax on income or capital gains realised by the Non-Czech Holder from the sale of the Notes; or
- (ii) in the case of the Non-Czech Holders who are individuals, such income is exempt from tax (see below conditions of exemption from tax which is available to Holders of the Notes who are individuals).

Income realised by the Non-Czech Holders, holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes will generally be subject to taxation in the Czech Republic.

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

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

Czech Holders that are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions may be required to revalue the Notes to fair value for accounting purposes, whereby the revaluation would be accounted for as revenue or expense. Such revenue is generally taxable and the corresponding expense is generally tax deductible for Czech tax purposes.

Other Taxes

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

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Belgium has replaced this withholding tax with a regime of exchange of information to the Member State of residence as from 1 January 2010.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in the amended and restated dealer agreement dated 10 February 2012 (the "**Dealer Agreement**") between the Issuer and the Dealers (as defined below), the Notes may be offered from time to time by the Issuer to any one or more of Barclays Bank PLC and Deutsche Bank AG, London Branch (the "**Dealers**") or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer.

The Issuer may issue Notes under the Programme domestically in the Czech Republic without the intermediation of any of the Dealers (the "**domestic issuance procedures**") and the Issuer has undertaken in the Dealer Agreement not use, or distribute copies of, this Offering Circular in connection with any issuance of Notes pursuant to the domestic issuance procedures.

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

Selling Restrictions

United States of America

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

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

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

United Kingdom

Each Dealer has represented, warranted and agreed that:

- (a) **No deposit-taking:** in relation to any Notes having a maturity of less than one year:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
 - (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

- (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
- (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

- (b) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (c) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Czech Republic

No approval or permit has been sought or obtained from the Czech National Bank in accordance with Act No. 256/2004 Coll., as amended (the "**Capital Markets Act**"), Act No. 190/2004 Coll., as amended (the "**Bonds Act**"), or otherwise in respect of the Notes, the Offering Circular or the promotion thereof (except for notifying the Czech National Bank under the Bonds Act). No application has been filed nor has any permission been obtained nor has any other arrangement been made for accepting the Notes for trading on any regulated market in the Czech Republic. Pursuant to Section 34(4)(a)1. of the Capital Markets Act, the offering of securities issued by the Czech Republic (such as the Notes) is exempt from the Czech regulation of public offering of securities.

General

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

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

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

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

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

GENERAL INFORMATION

1. Application may be made to list Notes issued under the Programme on the Luxembourg Stock Exchange on an issue by issue basis from the date hereof. Notes may also be issued pursuant to the Programme which will not be listed on the Luxembourg Stock Exchange or any other stock exchange or which will be listed on such stock exchange as the Issuer and the relevant Dealer(s) may agree.
2. The issuance of Notes under the Programme is authorised pursuant to the Bonds Act, Act No. 433/2010 Coll., on State Budget of the Czech Republic for 2011 (relevant provisions), specific Act No. 299/2008 Coll., specific Act No. 214/2009 Coll., specific Act No. 83/2010 Coll., specific Act No. 411/2010 Coll., specific Act No. 29/2011 Coll., and specific Act No. 96/2011 Coll., and any other acts with equivalent content adopted for the purpose by the Czech Republic in the future. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.
3. Except as disclosed in "*The Czech Republic – Legal Proceedings*" above, there are no legal, arbitration or administrative proceedings against or affecting the Issuer (and no such proceedings are pending or threatened) which have or may have, individually or in the aggregate, a significant effect on the financial position of the Issuer.
4. For so long as the Programme remains in effect or any Note shall be outstanding, copies and, where appropriate, English translations of the following documents may be inspected during normal business hours at the specified office of the Fiscal Agent and the Paying Agent in London and the Registrar in Germany:
 - (a) the Bonds Act, Act No. 433/2010 Coll., on State Budget of the Czech Republic for 2011 (relevant provisions), specific Act No. 299/2008 Coll., specific Act No. 214/2009 Coll. and specific Act No. 83/2010 Coll., specific Act No. 411/2010 Coll., specific Act No. 29/2011 Coll., and specific Act No. 96/2011 Coll.;
 - (b) the Fiscal Agency Agreement;
 - (c) the Deed of Covenant;
 - (d) the Dealer Agreement; and
 - (e) the Issuer – ICSDs Agreement,and copies and, where appropriate, English translations of the following documents may be obtained during normal business hours at the specified office of the Fiscal Agent and the Paying Agent in London:
 - (f) this Offering Circular (and any supplements thereto); and
 - (g) any Final Terms relating to Notes which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system. In the case of any Notes which are not admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the relevant Final Terms will only be available for inspection by a Holder of the relevant Notes upon production of evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity.
5. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Series will be specified in the Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.
6. Bearer Notes (other than Temporary Global Notes) and any Coupon appertaining thereto will bear a legend substantially to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code." The sections

of the Code referred to in such legend provide that a United States person who holds a Bearer Note or Coupon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bearer Note or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

7. Pursuant to Section 3(3) of the Bonds Act and Section 5 of Act No. 219/1995 Coll., Foreign Exchange Act, as amended, in connection with the relevant decree of the Czech National Bank issued thereunder, the issuance of each Series and/or Tranche of the Notes must be notified to the Czech National Bank setting out the place of issue and the amount of the relevant Series or Tranche and the form, yield and maturity of the relevant Notes.

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