

OFFERING CIRCULAR



CITY OF PRAGUE

€1,000,000,000

Euro Medium Term Note Programme

Application has been made to list notes ("Notes") issued under the Euro Medium Note Programme (the "Programme") described in this Offering Circular during the period of twelve months after the date hereof on the Luxembourg Stock Exchange. 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.

Arranger

Deutsche Bank

Dealers

ABN AMRO
Česká spořitelna, a.s.
Československá obchodní banka, a.s.
Dexia Capital Markets
Kommunalkredit Austria

Bayerische Landesbank
Commerzbank Securities
Deutsche Bank
HVB Corporates & Markets
Schroder Salomon Smith Barney

3 March 2003

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IMPORTANT NOTICES

City of Prague (the "Issuer") having made all reasonable enquiries, confirms (i) that this document contains all information which is material in the context of the issue of the Notes, (ii) that the information contained in this document is true and accurate in all material respects and is not misleading, (iii) that the opinions and intentions expressed in this document are honestly held and (iv) that there are no other facts the omission of which makes this document as a whole or any of the information or the expression of any of the opinions or intentions contained in this document misleading in any material respect.

This Offering Circular should be read and construed together with any amendments or supplements hereto and with any other documents incorporated by reference herein and, in relation to any Tranche (as defined herein) of Notes, should be read and construed together with the relevant Pricing Supplement (as defined herein).

No person has been authorised 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, the Trustee 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 Pricing Supplement 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 hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) 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.

The distribution of this Offering Circular and any Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement 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) (the "Securities Act") and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. In addition, the Issuer has not authorised any offer of Notes having a maturity of one year or more to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the "Regulations"). Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or otherwise in compliance with all applicable provisions of the Regulations.

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

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed €1,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into euro at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealer Agreement)). The maximum aggregate principal amount of Notes which may 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 "Subscription and Sale".

In this Offering Circular, unless otherwise specified, references to "€", "EUR" or "euro" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, "U.S.\$", "U.S. dollars" or "dollars" are to United States dollars and references to "Czech crowns", "koruna" "Kc" or "CK" are to the 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 (if any) which is specified in the relevant Pricing Supplement as the Stabilising Manager (or any person acting for the Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (1) the most recently published annual financial statements of the Issuer examined by the auditors from time to time; and
- (2) all amendments and supplements to this Offering Circular prepared by the Issuer from time to time,

provided, however, 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 Agents and the Luxembourg Listing Agent, provide, free of charge, upon oral or written request, a copy of this Offering Circular (or any document incorporated by reference in this Offering Circular). Copies of the documents may be obtained free of charge at the specified office of the Listing Agent in Luxembourg.

SUPPLEMENTARY OFFERING CIRCULAR

The Issuer has undertaken, in connection with the listing of the Notes on the Luxembourg Stock Exchange, that if at any time during the duration of the Programme there shall occur any adverse change in the financial position of the Issuer or any change in the information set out under "Terms and Conditions of the Notes", that is material in the context of issuance under the Programme, the Issuer will prepare or procure the preparation of an amendment or supplement to 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 to be listed on the Luxembourg Stock Exchange.

ENFORCEMENT OF CIVIL LIABILITIES AGAINST THE ISSUER

Jurisdiction

The Trust Deed provides that the courts of England will have non-exclusive jurisdiction to settle any dispute arising from or connected with the Trust Deed or the Notes (including a dispute regarding the existence, validity or termination of the Trust Deed or the Notes) or the consequences of their nullity. The Issuer has appointed a process agent to be its authorised agent for the service of process in England.

The Issuer is a city under the laws of the Czech Republic. All of the executive officers of the Issuer reside at present in the Czech Republic, and all of the assets of these persons are located outside England. As a result, it may not be possible for investors to effect service of the process within England upon such persons or to enforce claims against them in the courts in England predicated upon the civil liability provisions of the laws of England.

Enforcement through civil actions

The Issuer has been advised by Linklaters, counsel to the Issuer, that no treaty exists between the United Kingdom of Great Britain and Northern Ireland and the Czech Republic for the reciprocal enforcement of foreign judgments, and that judgments of the courts of England may not be currently enforceable in the courts of the Czech Republic.

In the absence of a treaty for the reciprocal enforcement of foreign judgments, the Czech Act on International Private and Procedural Law (the "Act") sets forth a procedure whereby the judiciary of the Czech Republic may recognise the reciprocity of enforcement of judgments obtained in other jurisdictions. The recognition of such reciprocity depends upon the actual judicial proceedings taken in the non-Czech country and would be enforceable in the courts of the Czech Republic subject to the provisions of the Act.

Under the Act, a decision of a foreign court may be recognised and enforced in the Czech Republic unless: (i) the matter decided falls within the exclusive jurisdiction of the courts or authorities of the Czech Republic, or if the proceedings could not be conducted before any court or authority of the foreign state if the rules on the jurisdiction of the Czech courts were used to determine whether such foreign court had jurisdiction; or (ii) a final decision on the same matter has previously been reached by a court of authority in the Czech Republic or a final decision of an authority or court of a third state in the same matter has previously been recognised in the Czech Republic; or (iii) the party against whom recognition and enforcement of the decision is sought has been deprived of an opportunity to participate duly in the foreign proceedings, in particular if the summons or notice of the commencement of the foreign proceedings has not been personally served on the defendant; or (iv) recognition of the foreign decision would be contrary to the public policy (*ordre public*) of the Czech Republic; or (v) reciprocal enforcement of judgments of the courts of the Czech Republic is not afforded by the foreign country concerned (the reciprocity is not recognised if the judgement is not against a citizen or legal entity resident in the Czech Republic).

The Ministry of Justice of the Czech Republic may, upon consultation with the Ministry of Foreign Affairs of the Czech Republic or any other applicable ministries of the Czech Republic, make a declaration of reciprocity with respect to any foreign country. Such reciprocity declaration would be binding on courts and other governmental authorities of the Czech Republic. If no such reciprocity declaration has been issued with respect to a country, it does not necessarily mean that no reciprocity exists. However, reciprocity between the United Kingdom of Great Britain and Northern Ireland and the Czech Republic has, to the Issuer's knowledge, not yet been established.

Enforcement of civil liabilities through claims brought in Czech courts

Non-Czech entities are able to bring civil proceedings in Czech courts against a Czech citizen or a Czech legal entity. Czech law of judicial procedure would apply and a judgment of a Czech court would be enforceable in the Czech Republic, subject to certain statutory limitations, such as the limitation of the execution of judgments against assets of the debtor in such cases where a forced sale would be inequitable.

Service of process

The Issuer has appointed an authorised agent in London, England upon which legal process can be served. As a result of such appointment, holders of the Notes will be able to effect service of process

upon the Issuer in original actions in courts in England. Regardless of the validity of such service of process under the laws of England, enforceability in the Czech Republic of final judgments of courts in England, remains subject to the conditions described above. To commence a legal action in the courts of the Czech Republic, service of process upon the Issuer's London agent will not suffice, and valid service of process must be made under Czech law.

Legal Procedure

Any person bringing an action in the Czech Republic is required to (i) submit to the court a translation in the Czech language of any relevant document prepared by a sworn translator authorised by the court; (ii) furnish, at the proposal of the defendant, such security for costs of the proceedings as determined by the court, it being understood that if no such security is furnished within the prescribed term, the court shall stay the proceedings; and (iii) pay a court filing fee (which for commercial disputes is equal to 4 per cent. of the amount in dispute, but not more than CZK 1,000,000) unless an exemption from such fee on the basis of reciprocity is available.

Enforcement through Arbitration

Although judgments of English courts may not, as described above, be directly enforceable in the Czech Republic, claims against the Issuer may be enforced through arbitration proceedings. An arbitral award, rendered, in all jurisdictions which guarantee reciprocity as to the recognition and enforcement of arbitration awards, against the Issuer normally would be enforceable in the Czech Republic, unless: (i) the arbitral award is not final or enforceable pursuant to the laws of the jurisdiction in which it was issued; (ii) the arbitral award relates to a matter in respect of which no arbitration agreement may be entered into pursuant to the laws of the Czech Republic; (iii) the arbitration agreement is otherwise invalid, has been cancelled or does not contemplate arbitration of the subject matter of the arbitral award; (iv) any one or more of the arbitrators was incompetent to render a decision on the subject matter, whether according to the terms of the arbitration agreement or otherwise; (v) a party to the arbitration proceedings was not given the opportunity to be heard; (vi) the arbitral award obligates a party to render performance which was not requested in the claim, which is, pursuant to Czech law, impossible to render or which violates Czech law; (vii) the party against whom the arbitral award was issued was not able to present a proper defence; (viii) a party is able to present evidence which it could not present during the arbitration proceedings, provided that such evidence may have resulted in a more favourable decision for such party in the matter; (ix) the arbitral award is contrary to the public policy (*ordre public*) of the Czech Republic or (x) the arbitral award was not adopted by a majority of the arbitrators.

Arbitration awards made in the territory of a State which is a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards signed in New York on 10 June 1958 (the "1958 New York Convention") will be enforceable in the Czech Republic subject to the provisions of the 1958 New York Convention.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is qualified in its entirety by the remainder of this Offering Circular. Words and expressions defined in "Forms of the Notes" or "Terms and Conditions of the Notes" below shall have the same meanings in this summary.

Issuer:	City of Prague.
Arranger:	Deutsche Bank AG London.
Dealers:	ABN AMRO Bank N.V., Bayerische Hypo- und Vereinsbank, Bayerische Landesbank, Česká spořitelna, a.s., Československá obochodní banka, a.s., Commerzbank Aktiengesellschaft, Deutsche Bank AG London, Dexia Banque Internationale à Luxembourg société anonyme acting under the name of Dexia Capital Markets, Kommunalkredit Austria AG, Salomon Brothers International Limited 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 of Notes.
Trustee:	Deutsche Trustee Company Limited pursuant to a trust deed dated 3 March 2003 (the "Trust Deed") a copy of which will be available for inspection (during normal office hours) at the Specified Office of the Principal Paying Agent and at the registered office of the Trustee.
Principal Paying Agent:	Deutsche Bank AG London.
Luxembourg Listing Agent:	Deutsche Bank Luxembourg S.A.
Listing	Each Series may be listed on the Luxembourg Stock Exchange and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed between the Issuer and the relevant Dealer and specified in the relevant Pricing Supplement or may be unlisted.
Clearing Systems:	Euroclear and/or Clearstream, Luxembourg and/or, in relation to any Tranche of Notes, any other clearing system as may be specified in the relevant Pricing Supplement.
Initial Programme Amount:	Up to €1,000,000,000 (or its equivalent in other currencies) aggregate principal amount of Notes outstanding at any one time.
Issuance in Series:	Notes will be issued in Series. Each Series may comprise one or more Tranches 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.
Pricing Supplements:	Each Tranche will be the subject of a Pricing Supplement which, for the purposes of that Tranche only, supplements the Terms and Conditions of the Notes and this Offering Circular and must be read in conjunction with this Offering Circular. The terms and conditions applicable to any particular Tranche of Notes are the Terms and Conditions of the Notes as supplemented, amended and/or replaced by the relevant Pricing Supplement.
Forms of Notes:	Notes may only be issued in bearer form. Each Tranche of Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or

any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.

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. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.

Issues of Notes with a maturity of more than one year denominated in Swiss Francs or carrying a Swiss Franc-related element (other than Notes privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of 8 November 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of 24 March 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Commission on Stock Exchanges and Securities Trading of 2 December 1996. Under these regulations, the relevant Dealer or, in the case of a syndicated issue, the lead manager (the "Swiss Dealer"), must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland) or a securities dealer duly licensed by the Swiss Federal Banking Commission pursuant to the Federal Law on Stock Exchanges and Securities Trading of 24 March 1995. The Swiss Dealer must report certain details of the relevant transaction to the Swiss National Bank no later than the date of issue of the relevant Notes.

Status of the Notes:

Notes will be issued on an unsubordinated basis.

Issue Price:

Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Pricing Supplement.

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 businesses; or (ii) be issued in other circumstances which do

not constitute a contravention of section 19 of the FSMA by the Issuer.

- Redemption:** Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement.
- Optional Redemption:** Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement.
- Tax Redemption:** Except as described in "Optional Redemption" above, early redemption will only be permitted for tax reasons as described in Condition 10(b) (*Redemption and Purchase – Redemption for tax reasons*).
- Interest:** Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.
- Denominations:** Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
- Negative Pledge:** The Notes will have the benefit of a negative pledge as described in Condition 5 (*Negative Pledge*).
- Cross Default:** The Notes will have the benefit of a cross default as described in Condition 13 (*Events of Default*).
- Taxation:** All payments in respect of Notes will be made free and clear of withholding taxes of the Czech Republic as the case may be, unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 12 (*Taxation*)) 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 22 (*Redenomination, Renominalisation and Reconventioning*) if so specified in the relevant Pricing Supplement.
- Selling Restrictions:** For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the United Kingdom and the Czech Republic, see "Subscription and Sale" below.

FORMS OF THE NOTES

Each Tranche of Notes will initially be in the form of either a temporary global note (the "Temporary Global Note"), without interest coupons, or a permanent global note (the "Permanent Global Note"), without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "Global Note") will be deposited on or around the issue date of the relevant Tranche of the Notes with a depository or a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and/or Clearstream Banking, société anonyme, Luxembourg ("Clearstream, Luxembourg") and/or any other relevant clearing system.

The relevant Pricing Supplement will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "TEFRA C Rules") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "TEFRA D Rules") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

- (i) presentation and (in the case of final exchange) surrender of the Temporary Global Note at the Specified Office of the Principal Paying Agent; and
- (ii) receipt by the Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership,

within 7 days of the bearer requesting such exchange.

The principal amount of the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; *provided, however, that* in no circumstances shall the principal amount of the Permanent Global Note exceed the initial principal amount of the Temporary Global Note.

The Permanent Global Note will be exchangeable in whole, but not in part, for Notes in definitive form ("Definitive Notes"):

- (i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- (ii) at any time, if so specified in the relevant Pricing Supplement; or
- (iii) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system 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 or (b) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever the 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 Pricing Supplement), 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 Principal Paying Agent within 60 days of the bearer requesting such exchange.

Temporary Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the 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 Pricing Supplement), 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 Principal Paying Agent within 60 days of the bearer requesting such exchange

Permanent Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

- (i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- (ii) at any time, if so specified in the relevant Pricing Supplement; or
- (iii) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system 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 or (b) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever the 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 Pricing Supplement), 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 Principal Paying Agent within 60 days of the bearer requesting such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "Terms and Conditions of the Notes" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

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.

Legend concerning United States persons

In the case of any Tranche of Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

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

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as supplemented, amended and/or replaced by the relevant Pricing Supplement, 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.

1. Introduction

(a) Programme

City of Prague (the "Issuer") has established a Euro Medium Term Note Programme (the "Programme") for the issuance of up to €1,000,000,000 in aggregate principal amount of notes (the "Notes").

(b) Pricing Supplement

Notes issued under the Programme are issued in series (each a "Series") and each Series may comprise one or more tranches (each a "Tranche") of Notes. Each Tranche is the subject of a pricing supplement (the "Pricing Supplement") which supplements these terms and conditions (the "Conditions"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Pricing Supplement. In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.

(c) Trust Deed

The Notes are subject to and have the benefit of a trust deed dated 3 March 2003 (as amended or supplemented from time to time, the "Trust Deed") made between the Issuer and Deutsche Trustee Company Limited as trustee (the "Trustee", which expression shall include all persons for the time being the trustee or trustees appointed under the Trust Deed).

(d) Agency Agreement

The Notes are the subject of an issue and paying agency agreement dated 3 March 2003 (the "Agency Agreement") between the Issuer, the Trustee, Deutsche Bank AG London as principal paying agent (the "Principal Paying Agent", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Principal Paying Agent, the "Paying Agents", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes).

(e) The Notes

All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for inspection during normal business hours at the Specified Office of the Principal Paying Agent, the initial Specified Office of which is set out below.

(f) Summaries

Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. The holders of the Notes (the "Noteholders") and the holders of the related interest coupons, if any, (the "Couponholders" and the "Coupons", respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office of the Trustee and the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below.

2. Interpretation

(a) Definitions

In these Conditions the following expressions have the following meanings:

"Accrual Yield" has the meaning given in the relevant Pricing Supplement;

"Additional Business Centre(s)" means the city or cities specified as such in the relevant Pricing Supplement;

"Additional Financial Centre(s)" means the city or cities specified as such in the relevant Pricing Supplement;

"Business Day" means:

- (i) in relation to any sum payable in euro, a TARGET Settlement 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 settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"Business Day Convention", in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (i) "Following Business Day Convention" means that the relevant 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 the relevant 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 the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (iv) "FRN Convention", "Floating Rate Convention" or "Eurodollar Convention" means that each relevant 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 relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred *provided, however, 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; and
- (v) "No Adjustment" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"Calculation Agent" means the Principal Paying Agent or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

"Coupon Sheet" means, in respect of a Note, a coupon sheet relating to the Note;

"Day Count Fraction" means, in respect of the calculation of an amount for any period of time (the "Calculation Period"), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

- (i) if "Actual/Actual (ISMA)" is so specified, means:
 - (a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (b) where the Calculation Period is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (ii) if "Actual/365" or "Actual/Actual (ISDA)" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iii) if "Actual/365 (Fixed)" is so specified, means the actual number of days in the Calculation Period divided by 365;
- (iv) if "Actual/360" is so specified, means the actual number of days in the Calculation Period divided by 360;
- (v) if "30/360" is so specified, means the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if "30E/360" or "Eurobond Basis" is so specified means, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of the final Calculation Period, the date of final maturity is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month);

"Early Redemption Amount (Tax)" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"Early Termination Amount" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Pricing Supplement;

"Extraordinary Resolution" has the meaning given in the Trust Deed;

"Final Redemption Amount" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"Fixed Coupon Amount" has the meaning given in the relevant Pricing Supplement;

"Interest Amount" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"Interest Commencement Date" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

"Interest Determination Date" has the meaning given in the relevant Pricing Supplement;

"Interest Payment Date" means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

- (i) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"Interest Period" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"ISDA Definitions" means the 2000 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 relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.);

"Issue Date" has the meaning given in the relevant Pricing Supplement;

"Margin" has the meaning given in the relevant Pricing Supplement;

"Maturity Date" has the meaning given in the relevant Pricing Supplement;

"Maximum Redemption Amount" has the meaning given in the relevant Pricing Supplement;

"Minimum Redemption Amount" has the meaning given in the relevant Pricing Supplement;

"Optional Redemption Amount (Call)" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"Optional Redemption Amount (Put)" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"Optional Redemption Date (Call)" has the meaning given in the relevant Pricing Supplement;

"Optional Redemption Date (Put)" has the meaning given in the relevant Pricing Supplement;

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

"Payment Business Day" means:

- (i) if the currency of payment is euro, any day which is:
 - (A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (ii) if the currency of payment is not euro, any day which is:
 - (A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“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 Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (ii) in relation to Australian dollars, it means both Sydney and Melbourne and, in relation to New Zealand dollars, it means both Wellington and Auckland; in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

“Put Option Notice” means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

“Put Option Receipt” means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

“Rate of Interest” means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

“Redemption Amount” means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the 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 relevant Pricing Supplement;

“Reference Banks” has the meaning given in the relevant Pricing Supplement 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 Price” has the meaning given in the relevant Pricing Supplement;

“Reference Rate” has the meaning given in the relevant Pricing Supplement;

“Regular Period” means:

- (i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “Regular Date” means the day and month (but not the year) on which any Interest Payment Date falls; and
- (iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “Regular Date” means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

“Relevant Date” means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

“Relevant Financial Centre” has the meaning given in the relevant Pricing Supplement;

"Relevant Indebtedness" means any indebtedness, present or future, which is in the form of or represented by any notes, bonds or other similar instruments which is, (i) with the agreement of the Issuer listed on any internationally recognised stock exchange or on any other internationally recognised securities market and (ii) denominated in a currency other than the currency of the Czech Republic and/or more than 50 per cent. of which is initially placed outside the Czech Republic;

"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 Moneyline Telerate Service) specified as the Relevant Screen Page in the relevant Pricing Supplement, 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" has the meaning given in the relevant Pricing Supplement;

"Reserved Matter" has the meaning given in Schedule 3 of the Trust Deed;

"Security Interest" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"Specified Currency" has the meaning given in the relevant Pricing Supplement;

"Specified Denomination(s)" has the meaning given in the relevant Pricing Supplement;

"Specified Office" has the meaning given in the Paying Agency Agreement;

"Specified Period" has the meaning given in the relevant Pricing Supplement;

"Talon" means a talon for further Coupons;

"TARGET Settlement Day" means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open;

"Treaty" means the Treaty establishing the European Communities, as amended;

"Zero Coupon Note" means a Note specified as such in the relevant Pricing Supplement;

(b) *Interpretation*

In these Conditions:

- (i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*) or any undertaking given in addition to or in substitution of Condition 12 (*Taxation*) pursuant to the Trust Deed, any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) or any undertaking given in addition to or in substitution of Condition 12 (*Taxation*) pursuant to the Trust Deed and any other amount in the nature of interest payable pursuant to these Conditions;
- (vi) references to Notes being "outstanding" shall be construed in accordance with the Trust Deed;
- (vii) if an expression is stated in Condition 2(a) to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and

- (viii) any reference to the Agency Agreement or Trust Deed shall be construed as a reference to the Agency Agreement, or as the case may be, Trust Deed as amended and/or supplemented up to and including the Issue Date of the Notes.

3. Form Denomination and Title

The Notes are in bearer form in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Notes with more than one Specified Denomination, Notes of one Specified Denomination will not be exchangeable for Notes of another Specified Denomination. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of any Note or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

4. Status

The Notes 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 both mandatory and of general application.

5. Negative Pledge

So long as any Note remains outstanding, the Issuer shall not grant or permit to be outstanding, and will procure that there is not permitted to be outstanding any Security Interest over any of its present or future assets or revenues or any part thereof to secure any Relevant Indebtedness unless the Issuer shall, in the case of the granting of the Security Interest, before or at the same time, and in any other case, promptly, procure that its obligations under the Notes are secured equally and rateably to the satisfaction of the Trustee, or such other security or other arrangement is provided as the Trustee shall in its absolute discretion consider to be not materially less beneficial to the interests of the Noteholders or as shall be approved by an Extraordinary Resolution of Noteholders.

6. Fixed Rate Note Provisions

(a) *Application*

This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest*

The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount*

The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Calculation of interest amount*

The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the principal amount of such Note, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest sub-unit of the Specified 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 country of such currency and, in the case of euro, means one cent.

7. Floating Rate Note and Index-Linked Interest Note Provisions

(a) Application

This Condition 7 (*Floating Rate Note and Index-Linked Interest Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) Accrual of interest

The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) Screen Rate Determination

If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest 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 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 Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(d) *ISDA Determination*

If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;
- (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement; 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 Pricing Supplement.

(e) *Index-Linked Interest*

If the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Pricing Supplement.

(f) *Maximum or Minimum Rate of Interest*

If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(g) *Calculation of Interest Amount*

The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the principal amount of such Note during such Interest Period and multiplying the product by the relevant Day Count Fraction.

(h) *Calculation of other amounts*

If the relevant Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.

(i) *Publication*

The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Trustee, the Paying Agents and 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 as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.

(j) *Notifications etc*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will

(in the absence of manifest error) be binding on the Issuer, the Trustee, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(k) *Determination or Calculation by Trustee*

If the Calculation Agent fails at any time to determine a Rate of Interest or to calculate an Interest Amount or Additional Interest Amount, the Trustee will determine such Rate of Interest and make such determination or calculation which shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply all of the provisions of these conditions with any necessary consequential amendments to the extent that, in its sole opinion and with absolute discretion, it can do so and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances and will not be liable for any loss, liability, cost, charge or expense which may arise as a result thereof. Any such determination or calculation made by the Trustee shall be binding on the Issuer, Noteholders and Couponholders.

8. Zero Coupon Note Provisions

(a) *Application*

This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Late payment on Zero Coupon Notes*

If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

- (i) the Reference Price; and
- (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. Dual Currency Note Provisions

(a) *Application*

This Condition 9 (*Dual Currency Note Provisions*) is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Rate of Interest*

If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

10. Redemption and Purchase

(a) *Scheduled redemption*

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments*).

(b) *Redemption for tax reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part:

- (i) at any time (if neither the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable); or
- (ii) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if immediately before giving such notice, the Issuer satisfies the Trustee that:

- (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 12 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Czech Republic or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and
- (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, *provided, however*, that no such notice of redemption shall be given earlier than:
 - (1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or
 - (2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate satisfactory to the Trustee signed by an authorised signatory of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred (and such evidence shall be sufficient to the Trustee and conclusive and binding on the Noteholders). Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

(c) *Redemption at the option of the Issuer*

If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders and having notified the Trustee prior to the provision of such notice (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(d) *Partial redemption*

If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Trustee approves and in such manner as the Trustee considers appropriate, subject to compliance with applicable law and the rules of 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 notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) *Redemption at the option of Noteholders*

If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10(e), the holder of a Note must, not less than 30 nor more than 60 days before the

relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(e), may be withdrawn; *provided, however, that* if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(e), the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.

(f) *No other redemption*

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (e) above.

(g) *Early redemption of Zero Coupon Notes*

Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

- (i) the Reference Price; and
- (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

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 such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 10(g) or, if none is so specified, a Day Count Fraction of 30E/360.

(h) *Purchase*

The Issuer may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith.

(i) *Cancellation*

All Notes so redeemed or purchased by the Issuer and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

11. Payments

(a) *Principal*

Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London).

(b) *Interest*

Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

(c) *Payments in New York City*

Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(d) *Payments subject to fiscal laws*

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 12 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Deductions for unmatured Coupons*

If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Note is presented without all unmatured Coupons relating thereto:

- (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however, that* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
- (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
 - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "Relevant Coupons") being equal to the amount of principal due for payment; *provided, however, that* where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
 - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

(f) *Unmatured Coupons void*

If the relevant Pricing Supplement specifies that this Condition 11(f) is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption of such Note pursuant to Condition 10(b) (*Redemption for tax reasons*), Condition 10(e) (*Redemption at the option of Noteholders*), Condition 10(c) (*Redemption at the option of the Issuer*) or Condition 13 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) *Payments on business days*

If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place

of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(h) *Payments other than in respect of matured Coupons*

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).

(i) *Partial payments*

If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) *Exchange of Talons*

On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent or the Paying Agent in Luxembourg for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14 (*Prescription*)). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12. Taxation

(a) *Gross up*

All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall 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, levied, collected, withheld or assessed by or on behalf of the Czech Republic or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

- (i) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the 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 implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 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 holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days; or
- (v) by or on behalf of a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note or Coupon is presented for payment.

(b) *Taxing jurisdiction*

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Czech Republic, references in these Conditions to the Czech Republic shall be construed as references to the Czech Republic and/or such other jurisdiction.

13. Events of Default

If any of the following events occurs and is continuing, the Trustee at its discretion may and, if so requested in writing by holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject, in the case of the happening of any of the events mentioned in paragraphs (b) (*Breach of other obligations*), or (e) (*Governmental consents*) below, to the Trustee having certified in writing that the happening of such event is in its opinion materially prejudicial to the interests of the Noteholders and, in all cases, to the Trustee having been indemnified or provided with security to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) *Non-payment*

default is made in the payment of any principal or interest due on the Notes and the default continues for a period of seven days in the case of principal and fifteen days in the case of interest; or

(b) *Breach of other obligations*

the Issuer fails to perform or observe any of its other obligations under the Notes or the Trust Deed and (except in any case where the failure is in the opinion of the Trustee incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) in the opinion of the Trustee the failure continues for the period of 30 days next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(c) *Cross-default of Issuer*

any loan or other indebtedness for borrowed money (other than the Notes) in excess of U.S.\$10,000,000 (or its equivalent reasonably determined by the Trustee in any other currency) of the Issuer ("Default Indebtedness") shall become due and payable prior to the stated maturity thereof following a default or any security therefor becomes enforceable or the Issuer fails to make repayment of any Default Indebtedness at the maturity thereof or at the expiration of any grace period originally applicable thereto or any guarantee of, or indemnity in respect of, any Default Indebtedness given by the Issuer shall not be honoured when due and called upon unless, in each such case, the relevant payment is being contested in good faith by appropriate legal proceedings by or on behalf of the Issuer; or

(d) *Insolvency etc*

the Issuer shall suspend payment of, or admit its inability to pay, its debts generally, or declare a general moratorium on or in respect of its indebtedness, or enter into any composition with creditors or anything analogous to the foregoing shall occur; or

(e) *Governmental consents*

any governmental consent required for the validity, enforceability or performance of the Notes ceases for any reason to be in full force and effect.

14. Prescription

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

15. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent (and, if the Notes are then admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the

appointment of a Paying Agent in any particular place, the Paying Agent having its Specified Office in the place required by such listing authority, stock exchange and/or quotation system), subject to all applicable laws and listing authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note or Coupon is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes or Coupons). Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

16. Trustee and Agents

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceeds to enforce payment unless indemnified to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes or Coupons as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer or, following the occurrence of an Event of Default, the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent or Calculation Agent and additional or successor paying agents; *provided, however, that:*

- (a) the Issuer shall at all times maintain a Principal Paying Agent; and
- (b) if the conclusions of the ECOFIN Council meeting of 26-27 November 2000 are implemented, the Issuer will ensure that they maintain a Paying Agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing such conclusions or any law implementing or complying with, or introduced to conform to, such Directive; and
- (c) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent; and
- (d) if and for so long as the Notes are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a Paying Agent having its Specified Office in the place required by such listing authority, stock exchange and/or quotation system.

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

17. Meetings of Noteholders; Modification and Waiver

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the provisions of the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the

principal amount of the Notes held or represented; *provided, however, that* Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification*

The Trustee may agree, without the consent of the Noteholders or the Couponholders to (i) any modification of any provision of these Conditions or the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest error and (ii) any other modification (except as mentioned in the Trust Deed and other than in respect of a Reserved Matter) and any waiver or authorisation of any breach or proposed breach of any provision of these Conditions or the Trust Deed (other than a breach or proposed breach relating to the subject of a Reserved Matter) which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, save the Trustee shall only agree without the consent of the Noteholders to such modification if, in the opinion of the Trustee, such modification is not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and Couponholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders and Couponholders as soon as practicable thereafter.

18. Enforcement

The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

- (a) it has been so requested in writing by the holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and
- (b) it has been indemnified or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

19. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

20. Notices

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) and, if the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (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). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

21. Rounding

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (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.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

22. Redenomination, Renominalisation and Reconventioning

(a) Application

This Condition 22 (Redenomination, Renominalisation and Reconventioning) is applicable to the Notes only if it is specified in the relevant Pricing Supplement as being applicable.

(b) Notice of redenomination

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 the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents and having notified the Trustee prior to the provision of such notice, 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.

(c) Redenomination

Notwithstanding the other provisions of these 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 Trustee that 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 Noteholders and Couponholders, 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 the Noteholders 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 22) 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 Trustee may specify and as shall be notified to the Noteholders 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.

(d) *Interest*

Following redenomination of the Notes pursuant to this Condition 22, 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.

(e) *Interest Determination Date*

If the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable and Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, with effect from the Redenomination Date the Interest Determination date shall be deemed to be the second TARGET Settlement Day before the first day of the relevant Interest Period.

23. Governing Law and Jurisdiction

(a) *Governing law*

The Notes and the Trust Deed and all matters arising from or connected with the Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction*

The Issuer has in the Trust Deed: (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "Dispute") arising from or connected with the Notes; (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) designated a person in England to accept service of any process on its behalf; (iv) consented to the enforcement of any judgment; and (v) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings relating to a Dispute ("Proceedings") in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

(c) *Arbitration*

The Issuer agrees that any Dispute may, provided that Proceedings have not already been commenced in relation to that Dispute or a similar or related Dispute, alternatively be referred to and finally resolved by and under the rules (the "Rules") of the London Court of International Arbitration (the "Tribunal"). The Tribunal shall consist of a sole arbitrator agreed upon by the Issuer and the Trustee in writing (subject to the Rules) or, if not so agreed within 21 days of the Dispute being referred to arbitration, a sole arbitrator appointed in accordance with those Rules. The place of any such arbitration shall be London and the language English.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement 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 Pricing Supplement but denotes directions for completing the Pricing Supplement.

Pricing Supplement dated ●

CITY OF PRAGUE

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the €1,000,000,000

Euro Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 3 March 2003. This Pricing Supplement must be read in conjunction with such Offering Circular.

[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 Pricing Supplement.]

- | | | |
|----|---|---|
| 1. | Issuer: | City of Prague |
| 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 Nominal Amount: | |
| | [(i) [Series:]] | [] |
| | [(ii) [Tranche:]] | [] |
| 5. | [(i) Issue Price: | [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)] |
| | [(ii) Net proceeds: | [] (Required only for listed issues)] |
| 6. | Specified Denominations: | []
[] |
| 7. | [(i) Issue Date: | [] |
| | [(ii) Interest Commencement Date
(if different from the Issue Date): | [] |
| 8. | Maturity Date: | <i>[specify date or (for Floating Rate Notes) Interest Payment Date falling in the relevant month and year]</i> |

[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: [●% Fixed Rate]
 [[specify reference rate] +/- ●% Floating Rate]
 [Zero Coupon]
 [Index-Linked Interest]
 [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. Status of the Notes: [Senior]
14. Listing: [Application has been made for the Notes to be listed on the Luxembourg Stock Exchange/other (specify)/None]
15. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate(s) of Interest: [] per cent. per annum [payable annually/semi-annually/quarterly/monthly in arrear]
- (ii) Interest Payment Date(s): [] in each year
- (iii) Fixed Coupon Amount(s): [] [per Note of [] Specified Denomination and per Note of [] Specified Denomination]
- (iv) Day Count Fraction: [30/360]/[Actual/Actual (ISMA)] *[If neither of these options applies, give details]*
- (v) Broken Amount(s): *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount(s)]*

- (vi) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]
(Consider if day count fraction, particularly for Euro denominated issues, should be on an Actual/Actual basis. Also consider what should happen to unmatured Coupons in the event of early redemption of the Notes.)
17. Floating Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph. Also consider whether EURO BBA LIBOR or EURIBOR is the appropriate reference rate)
- (i) Specified Period(s)/Specified Interest Payment Dates: []
- (ii) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/other (give details)]
- (iii) Additional Business Centre(s): [Not Applicable/give details]
- (iv) Manner in which the Rate(s) of Interest is/ are to be determined: [Screen Rate Determination/ISDA Determination/other (give details)]
- (v) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Principal Paying Agent]): [[Name] shall be the Calculation Agent (no need to specify if the Principal Paying Agent is to perform this function)]
- (vi) Screen Rate Determination:
 – Reference Rate: [For example, LIBOR or EURIBOR]
 – Relevant Screen Page: [For example, Moneyline Telerate page 3750/248]
 – Interest Determination Date(s): []
 – Relevant Time: [For example, 11.00 a.m. London time/ Brussels time]
 – Relevant Financial Centre: [For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro)]
- (vii) ISDA Determination:
 – Floating Rate Option: []
 – Designated Maturity: []
 – Reset Date: []
- (viii) Margin(s): [+/-] [] per cent. per annum
- (ix) Minimum Rate of Interest: [] per cent. per annum
- (x) Maximum Rate of Interest: [] per cent. per annum
- (xi) Day Count Fraction: []
- (xii) 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: []
18. Zero Coupon Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) [Amortisation/Accrual] Yield: [] per cent. per annum

- (ii) Reference Price: []
- (iii) Any other formula/basis of determining amount payable: [Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition 10(g)]
19. Index-Linked Interest Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Index/Formula: [Give or annex details]
- (ii) Calculation Agent responsible for calculating the interest due: []
- (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: []
- (iv) Specified Period(s)/Specified Interest Payment Dates: []
- (vi) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/other (give details)]
- (vii) Additional Business Centre(s): []
- (viii) Minimum Rate of Interest: [] per cent. per annum
- (ix) Maximum Rate of Interest: [] per cent. per annum
- (x) Day Count Fraction: []
20. Dual Currency Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [Give details]
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: []
- (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

21. Call Option [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Optional Redemption Date(s) (Call): []
- (ii) Optional Redemption Amount(s) (Call) and method, if any, of calculation of such amount(s): []
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: []
- (b) Maximum Redemption Amount: []
- (iv) Notice period (if other than as set out in the Conditions): []
22. Put Option [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)

- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): []
- (iii) Notice period (if other than as set out in the Conditions): []
23. Final Redemption Amount [Par/other/see Appendix]
24. Early Redemption Amount
 Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions): [Not Applicable (if both the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes)]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of Notes: Bearer Notes:
 [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [] days' notice/at any time/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 on [] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note].
26. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details. Note that this item relates to the place of payment, and not interest period end dates, to which item 17(iii) relates]
27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
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 22 (Redenomination, Renominatisation and Reconventioning)] [annexed to this Pricing Supplement] apply]
31. Consolidation provisions: [Not Applicable/The provisions [in Condition 19 (Further Issues)] [annexed to this Pricing Supplement] apply]

32. Other terms or special conditions: [Not Applicable/give details]

DISTRIBUTION

33. (i) If syndicated, names of Managers: [Not Applicable/give names]

(ii) Stabilising Manager (if any): [Not Applicable/give name]

34. If non-syndicated, name of Dealer: [Not Applicable/give name]

35. TEFRA: [Not Applicable/The [C/D] Rules are applicable]

36. Additional selling restrictions: [Not Applicable/give details]

OPERATIONAL INFORMATION

37. ISIN Code: []

38. Common Code: []

39. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

40. Delivery: Delivery [against/free of] payment

41. Additional Paying Agent(s) (if any): []

[LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the €1,000,000,000 Euro Medium Term Note Programme of the City of Prague.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By:
Duly authorised

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

Each Global Note will be in bearer form. Consequently, in relation to any Tranche of Notes represented by a Global Note, references in the Terms and Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depository or a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depository or common depository.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note (each an "Accountholder") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the bearer of such Global Note and in relation to all other rights arising under the Global Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by the Global Note, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the bearer of the Global Note.

Exchange of Temporary Global Notes

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

- (a) in the case of first exchange, the prompt delivery (free of charge to the bearer) of such Permanent Global Note, duly authenticated, to the bearer of the Temporary Global Note; or
- (b) 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 Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and received by the Principal Paying Agent against presentation and (in the case of final exchange) surrender of the Temporary Global Note at the Specified Office of the Principal Paying Agent within 7 days of the bearer requesting such exchange.

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 Pricing Supplement), 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 Principal Paying Agent within 60 days of the bearer requesting such exchange.

Exchange of Permanent Global Notes

Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), 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 Principal Paying Agent within 60 days of the bearer requesting such exchange.

Conditions applicable to Global Notes

Each Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note. The following is a summary of certain of those provisions:

Payments

All payments in respect of the Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or

interest is made in respect of the Global Note, the Issuer shall procure that the same is noted in a schedule thereto.

Exercise of put option

In order to exercise the option contained in Condition 10(e) (*Redemption at the option of Noteholders*) the bearer of the Permanent Global Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option

In connection with an exercise of the option contained in Condition 10(c) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions.

Notices

Notwithstanding Condition 20 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 20 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg 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*).

Redenomination

If the Notes are redenominated pursuant to Condition 22 (*Redenomination, Renominalisation and Reconventioning*), then following redenomination:

- (a) if Definitive Notes are required to be issued, they shall be issued at the expense of the Issuer in the denominations of euro 0.01, euro 1,000, euro 10,000, euro 100,000 and such other denominations as the Trustee shall determine and notify to the Noteholders; and
- (b) the amount of interest due in respect of Notes represented by a Permanent Global Note and/or a Temporary Global Note will be calculated by reference to the aggregate principal amount of such Notes and the amount of such payment shall be rounded down to the nearest euro 0.01.

DESCRIPTION OF THE ISSUER

Introduction

The City of Prague (the "City") is the capital of, and the largest city (in terms of both area and population) in, the Czech Republic. The City's origins lie in the late 9th century with the construction of settlements on the Vltava River. In subsequent centuries, Prague became the economic and cultural centre of the Czech lands. In the 14th century, Prague became the seat of the Emperor of the then Holy Roman Empire as well as a cultural and political centre of Europe. From the 16th century until 1918, Prague, as the capital of the Czech Kingdom, was an integral part of Habsburg's Austrian and later Austro-Hungarian empire. After World War I, Prague became the capital of the common state of Czechs and Slovaks, Czechoslovakia, which, with the exception of World War II, existed until 31 December 1992. The Czech Republic was created on 1 January 1993 with the splitting of Czechoslovakia and Prague became its capital city.

Prague is located to the west of the central part of the Czech Republic and covers an area of 496 square kilometres. The City is located on both sides of the Vltava River and is the Czech Republic's political, financial, administrative and cultural centre, and plays a dominant role in the country's economy. Almost 25 per cent. of Czech GDP is created in the City and about one-fifth of all foreign investment in the Czech Republic is made in Prague.

Most of the important national government offices are situated in the City, including the Parliament, the Ministries and the President's office and official residence. The Czech National Bank, the headquarters of all the major Czech commercial banks and savings banks and the only stock exchange in the country are also located in the City. In addition, most of the foreign corporations and commercial banks present in the Czech Republic have established their offices in Prague.

City Demographic Data

According to a census carried out by the Czech Statistical Office on 1 March 2001, the City had a population of 1.17 million, being approximately 12 per cent. of the total population of the Czech Republic. Almost 97 per cent. of the City's population are nationals of the Czech Republic.

The following table sets out certain demographic data of the City as at 31 December 1999, 31 December 2000 and 31 December 2001:

	1999	2000	2001
Population as at 31 December (000s)	1,187	1,185	1,169
Male (000s)	562	555	555
Female (000s)	625	622	614
Population under working age (000s)	165	160	154
Population at working age (000s)	776	774	771
Population over working age (000s)	246	247	245
Natural decrease (per 1,000 population)	3.8	3.9	(3.0)
Net migration (per 1,000 population) surplus of deceased and outgoing over newborn and immigrants	(1.6)	(3.8)	(5.8)

Source: Czech Statistical Office

51 per cent. of the City's population is economically active, of which the two largest groups are employees (74 per cent.) and the self-employed (16 per cent.).

The rate of unemployment in the City has been consistently the lowest in the country. As at 31 January 2003, it was 3.7 per cent. compared to the national unemployment figure of 10.0 per cent.

Municipal Administration and Authorities

Act No 131/2000 Coll., on the City of Prague, as subsequently amended, regulates the position of the City as the capital of the Czech Republic, a region and a municipality.

The City has its own assets and income and administers its assets according to its budget.

It has separate legal personality and, accordingly, is able to enter into contracts in its own name and on its own account.

The City is territorially divided into 57 self-administered districts. The districts act independently and on their own account in legal relations within the limits provided by the law and the City's statute.

The City's authorities include principally the General Assembly (or Assembly of Representatives), the City Council, the Lord Mayor, committees of the General Assembly, commissions of the City Council and specific authorities, and the City *Magistrat*.

Each of the districts is organised in a similar way to the City, having its own general assembly, district council with district mayor, committees of the general assembly, commissions of the district council, various specific authorities and district administration office.

Elections for the City and district General Assemblies are held every four years. The last elections were held in November 2002. Elections take place by secret ballot on the basis of general, equal and direct voting and on the basis of a proportional representation system. All citizens of the Czech Republic over 18 years of age, having permanent residence in the City, have the right to vote in their relevant district. Any candidate for a municipal body must be at least 18 years old.

The General Assembly

The highest authority of the City is the General Assembly, which has 70 members. The General Assembly of the City elects, from amongst its members, the Lord Mayor, deputy mayors and other members of the City Council, as well as the chairmen of the permanent committees.

The General Assembly is responsible mainly for submitting bills of legislation to the national Parliament, approving, after consultation with the districts, a territorial plan and development programmes, and approving, after consultation with the districts, the City budget and the final accounts.

The General Assembly usually meets monthly and the main Czech political parties are represented in the General Assembly. The following table sets out the political affiliation of the members elected in November 2002:

Political party (English name)	(Czech name)	Number of seats
Civic Democratic Party	Občanská demokratická strana – (ODS)	30
European Democrats	Evropští demokraté – (ED)	15
Czech Social Democratic Party	Česká strana sociálně demokratická – (ČSSD)	12
Communist Party of Bohemia and Moravia	Komunistická strana Čech a Moravy – (KSČM)	8
Independent*	Nezařazení do politických klubů	5
Total		70

**members of the following political parties: Union of Freedom (Unie Svobody – US), Christian Democratic Union – Czechoslovak People's Party (Křesťanská demokratická unie – Československá strana lidová – (KDU ČSL)) and Association of Independents (Sdružení nezařazených – (SNK))*

The Civic Democratic Party and the Social Democrats, which were in a ruling coalition between 1998 and 2002, have formed a coalition for a further four-year period.

The City Council

The City Council is the executive authority of the City. It prepares proposals for the meetings of the General Assembly and implements the decisions adopted by the General Assembly. The City Council has 11 members elected by the General Assembly. It usually meets weekly.

The City Council is responsible mainly for implementing and overseeing the City's operations according to an approved budget, adopting budget measures in accordance with legislation and exercising the powers of a general meeting in companies in which the City is the sole shareholder.

The current members of the City Council and their areas of responsibility are set out below:

Position	Member	Party	Responsibility
Mayor	Pavel Bém	ODS	Foreign policy, external communication.
Deputy Mayor	Jan Bürgermeister	ODS	City development, housing policy, monument care.
Deputy Mayor	Petr Hulinský	ČSSD	Energy management, fairs and exhibitions.
Deputy Mayor	Rudolf Blažek	ODS	Security, legal affairs.
Deputy Mayor	Jiří Paroubek	ČSSD	Financial policy.
Councillor	Miloš Gregar	ODS	Environment, water supply, waste management.
Councillor	Hana Halová	ČSSD	Health and social care, minorities.
Councillor	Pavel Klega	ODS	Property management, infrastructure.
Councillor	Igor Němec	ODS	Culture, tourism, sports, churches.
Councillor	Jan Slezák	ČSSD	Education, youth affairs.
Councillor	Radovan Šteiner	ODS	Transportation.

The City Magistrat

The City executive body responsible for day-to-day operations is the *Magistrat*. This professional administration is divided into 45 departments (grouped into 8 divisions) covering the individual areas of the City's administration, and is headed by a Director. As at 31 December 2002, the Magistrat had 2,096 directly employed staff.

Responsibilities

The responsibilities of the City government are to manage the affairs conferred upon it directly by law and regulation, its "autonomous responsibilities", and to exercise certain functions of the State administration in the City's territory, its "delegated responsibilities". In the field of its autonomous responsibilities, the City's most important tasks cover the areas of housing, education, health care, culture, urban planning and the development of the City's infrastructure, including the provision of water and transportation systems and the maintenance of roads. Responsibility for the maintenance of certain amenities is shared with the districts. In the framework of responsibilities delegated from the State, the City provides various social security and administrative services.

Municipal Economy

Local Economic Structure

Almost 25 per cent. of Czech GDP is created in Prague. According to the Czech Statistical Office, Prague's per capita GDP had a value of over EUR 30,000 (converted according to the parity of purchase price) as at 31 December 2001, which represented 120 per cent. of the EU average. About 75 per cent. of GDP in Prague is created in the tertiary sector consisting of *inter alia*, services, distribution, commerce and tourism.

The table below sets out the average number of employees in Prague by industry sector as at 31 March 2002:

	As at 31 March 2002
Trade, repair of motor vehicles and personal and household goods	16.7%
Real estate, renting and business activities	12.4%
Manufacturing	10.0%
Construction	9.2%
Transport, storage and communications	8.4%
Health and social work	8.1%
Public administration and defence, compulsory social security	8.1%
Education	7.6%
Other community, social and personal services	7.4%
Hotels and restaurants	5.0%
Financial intermediation and insurance	4.4%
Electricity, gas and water supply	2.0%
Agriculture, hunting and related service activities	0.5%
Others, not identified	0.3%

Source: Czech Statistical Office.

Neither the individual performance of Prague-based enterprises nor their aggregate performance has a direct effect on the income-side of the City budget, because both corporate tax-related and VAT-related parts of the City budget are determined by the amount of those taxes collected on a national level.

Organisations and companies established by the City

The City is the founder of contributory organisations, organisational units, state enterprises and companies.

Contributory organisations

Contributory organisations are founded by both the City and city districts. The purpose and aim of the organisations are set by their founder in their founding deeds. The founder may provide assets to be used by the organisation. The contributory organisations are not included in the financial statements of the City. Contributions granted to these organisations form part of the City's current and capital expenditure.

The most important contributory organisations of the City are Prague botanic garden and zoo in the city infrastructure department, technical administration of roads in the transportation department, schools in the education department, old people's homes and social care institutions in the health care and social affairs department, sewerage plants in the environmental department, theatres, the City library and symphonic orchestra in the culture department, and Prague cemetery administration in the administration department.

As at 31 December 2001, the contributory organisations of the City held total assets of CK 15,529,401,000. In 2002, the City subsidised the contributory organisations with non-investment contributions in the amount of CK 10 billion and investment contributions in the amount of CK 1 billion.

Organisational units

The only organisational unit founded by the City is the City police.

State Enterprises

The City controls certain state enterprises, the main assets of which were privatised during the 1990s. There are no material assets or liabilities in these state enterprises and they are in the process of being liquidated.

Companies

Companies are founded by the City principally for the provision of services. The most important companies include Dopravní podnik hl.m. Prahy, a.s., Kongresové centrum Praha, a.s. and Pražské služby, a.s.

Dopravní podnik hl.m. Prahy, a.s.

The main activity of this company is the operation of the metro system, tramways and bus routes and the construction of transport facilities for all of the City's transport.

In 2002, the City provided the transport company with a non-investment subsidy in the amount of CK 7 billion and investment subsidies in the amount of almost CK 4 billion from its budget.

Kongresové centrum Praha, a.s.

The main activity of this company, which is the owner of the congress centre, is the organisation of congresses, symposia, fairs, exhibitions and other similar events.

Pražské služby, a.s.

The main activity of this company is the cleaning of streets and public areas and waste treatment. Revenues from municipal waste disposal are a part of the City's income. Expenditures related to the collection of waste are part of the City's current expenditure. Most services relating to the municipal waste collection are provided by this company.

The City's companies are not included in the City's financial statements. Subsidies provided to those companies are part of the City's current and capital expenditure.

More detailed information on the City's holdings is provided in the "Financial Statements of the City" section.

Municipal Budget Process

The table below provides a summary of the main budget revenues and expenditures of the City for the years ended 31 December 1999 to 31 December 2002 and for the year ending 31 December 2003:

City budget	1999	2000	2001	2002	2002	2003
	actual	actual	actual	actual ⁽¹⁾	approved budget ⁽²⁾	approved budget ⁽³⁾
CK millions						
INCOME						
Income from taxes	22,745	24,559	25,450	28,217	23,792	25,989
Non-tax income	1,878	1,737	1,214	1,693	350	258
Capital income	28	25	64	39	0	0
Subsidies	4,503	6,720	11,341	13,881	(1,703)	(935)
Total income	29,154	33,041	38,069	43,830	22,439	25,312
EXPENDITURE						
Current expenditure	20,250	20,556	27,167	30,569	23,019	24,303
Capital expenditure	10,000	10,875	16,043	15,508	9,870	7,046
Total expenditure	30,250	31,431	43,210	46,077	32,889	31,349
Balance: surplus/(deficit)	(1,096)	1,610	(5,141)	(2,247)	(10,450)	(6,037)

Source: City of Prague

(1) Not examined by the auditors

- (2) Approved budget for the City (without City districts) for comparison purposes
- (3) Approved budget for the City (without City districts)

The income and expenditure figures of the City for 2002 will not be formally approved by the City's authorities or examined by the auditors until June 2003. However, the City does not expect any material change to the figures presented in this Offering Circular.

Proposal of the Budget

The process of creating and approving the budget for a year begins in the middle of the preceding year. A first draft is usually created by the end of August. This draft reflects an expected budget income and an aggregate of expenditures required for the City's obligations including requirements of the organisations linked to the municipal budget.

The draft is submitted to the City Council for discussion and approval and then to the General Assembly of the City.

Due to the links to the State budget (see "Sources of Budget Revenues" below), the City budget is voted on after the approval of the State budget by the national Parliament. It is possible for the City to approve its budget independently of the State budget, however, in such a case the expected State subsidies must be temporarily substituted by other sources of income in the same amount. Should such temporary resources not be available, then the City would be subject to a freeze on expenditure until the State budget is approved.

Following the approval of the City budget by the General Assembly, the city districts commence their own budgetary process. The aggregate of the districts' budgets accounts for approximately 15 to 20 per cent. of the City budget. Approval of district budgets is, as a rule, completed in April of the relevant year and the budget of the City including city districts is approved by the General Assembly in May of the relevant year.

The budget of the City (without the city districts) for 2003 was approved by the General Assembly on 19 December 2002. The data provided in this Offering Circular in respect of 2003 relates to the City budget exclusive of the city districts.

Modifications to the Budget

The budget is modified several times a year. Modifications are made when State subsidies are increased or decreased or where other income exceeds or falls short of the initially approved income.

Closure of Budget

At the end of the financial year, the City is required to account to the State for the use of all special purpose State subsidies. To the extent that these have not been used in full, the City repays their unused portion unless it agrees with the relevant State authority to roll the subsidy over into the following year. A similar process takes place between the City and the districts.

Investment

As a consequence of reforms that took place at the end of 1990s, the City acquired majority holdings in certain companies which were not founded for the purpose of providing services to the City. Certain city districts own holdings in companies too.

The financial statements of the City do not include the assets, costs and revenues of the companies in which it has a majority or substantial holding. Subsidies provided to these companies, however, are part of the City's current and capital expenditures.

The City has no investments in foreign companies.

The total amount of investments into those companies was approximately CK 44 billion as at 31 December 2002.

The following table lists the companies in which the City had a stake as at 31 December 2002.

Name of Company	Sector	City Participation in %	Book value of the investment as at 31 December 2002
			in CK million
Dopravní podnik hl.m. Prahy, akciová společnost	urban transport	100	30,726
Kongresové centrum Praha, a.s.	conferences	100	7,138
Pražské služby, a.s.	urban services	77	2,024
Pražská energetika Holding, a.s.	energy distribution	51	1,835
Pražská teplárenská Holding, a.s.	heating	51	988
Pražská plynárenská Holding, a.s.	gas distribution	51	773
TCP-Vidoule, a.s.	property management	98	103
Pragonet, a.s.	communication systems	38	96
České aerolinie, a.s (ČSA)	air transportation	3	80
Kolektory Praha, a.s.	underground utilities	100	68
První městská banka, a.s.	banking	10	52
Pivovar Litovel, a.s.	brewing	4	25
Trade centre Praha, a.s.	property management	90	14
Pražská vodohospodářská společnost, a.s.	water and sewage	92	5
PRaK, a.s.	suburban transport project	26	2
Obchodní společnost Praha Čisté město, a.s.	urban services	100	1
PVA, a.s.	fairs	11	1
Investment of the city districts	(various)	n.a.	25
Total			43,956

Long-term liabilities

The following table is a summary of the City's long-term liabilities as at 31 December 2000, 31 December 2001 and 31 December 2002:

	31 December 2000	31 December 2001	31 December 2002 ⁽¹⁾
	in CK '000		
1st issue of bonds	0	0	0
2nd issue of bonds (EUR 200 mil.)	7,018,000	6,396,000	6,320,000
3rd issue of bonds	0	5,000,000	5,000,000
Total	7,018,000	11,396,000	11,320,000
Syndicated revolving facility	0	0	0
ING Barings facility payable in 2010	3,750,000	3,750,000	3,750,000
EIB facility payable in the years 2005-2015 (EUR 50 mil.)	388,751	1,107,386	1,647,884
EIB facility payable in the years 2006-2016 (EUR 75 mil.)	0	509,550	2,224,000
Facility from CM-CREDIT	0	660,000	550,000
Facilities of city districts	114,709	101,373	309,044
Total	4,253,460	6,128,309	8,480,928
Other long-term liabilities	290,558	268,744	830,962

Source: City of Prague.

⁽¹⁾ Not examined by the auditors

The total debt of the City and districts amounted approximately to CK 20.6 billion as at 31 December 2002.

The City does not currently intend to prolong its existing facilities or bonds and it intends to repay all of the above liabilities at their maturity and creates reserves for that purpose in its budget.

The City guarantees a syndicated loan in the amount of CK 800 million payable in 2007 which was granted to Kongresové centrum Praha, a.s.

In May 2002, Dopravní podnik hl.m. Prahy, a.s., was granted a dual currency syndicated loan in the amounts of EUR 90 million and CK 1.5 billion. The proceeds from this loan, which is due for repayment in 2019, will be used to purchase new trains for the Prague metro. The City does not guarantee the repayment of this loan.

Proposed further financing of City's capital expenditure

With the aim of securing financing for the realisation of the City's projects in the areas of transportation and housing, the City General Assembly, in 2002, approved the creation by the City of a Euro Medium Term Note Programme with the total value of up to CK 30 billion which may be used over the next 16 years. In addition, the City is about to draw down a further EUR 75 million from the EIB for the construction of the metro extension.

2002 Floods

In August 2002, Prague, along with areas of Southern, Central and Northern Bohemia, was severely damaged by a historically unprecedented flood. Those districts of the City lying close to the Vltava river were the worst affected. The flood severely damaged various private and public properties as well as infrastructure, as a result of which thousands of people had to be temporarily relocated and many of them have not yet been able to return to their homes.

In relation to the City, the most significant damage was caused to the Prague metro, one third of which was flooded. The majority of the metro routes were out of operation for several weeks and full restoration of the metro to its pre-flood state is expected in March 2003.

The costs of reconstruction of the City's assets including the transport infrastructure owned by the City's wholly-owned subsidiary in charge of the transportation system, Dopravní podnik hl.m. Prahy, a.s., amount, according to professional estimates as at January 2003, to CK 14 billion, one half of which is the cost of putting the metro back in operation. Although some of the costs of repair were borne in 2002, the majority of the costs are expected to be incurred in 2003. About one third of the total costs should be covered by the approved budget for the year 2003. Those costs which are not provided for in the budget are planned to be financed by way of: (i) subsidies from the state budget in the amount of CK 2.8 billion, (ii) two loans from the EIB in the total amount of CK 4.5 billion, (iii) loans from the State Fund of Housing Construction in the amount of CK 0.5 billion, and (iv) past income and non-realised budget expenditure in the amount of approximately CK 2.9 billion.

Sources of budget revenues

The table below provides revenues of the City for the years ended on 31 December 1999 to 31 December 2002 and approved budget revenues for the year ending 31 December 2003 (without city districts).

	1999	2000	2001	2002	2002	2003
	actual	actual	actual	actual ⁽¹⁾	approved budget ⁽²⁾	approved budget ⁽³⁾
CK millions						
Individual income tax	19,586	21,282	8,125	8,954	8,249	9,015
Corporate income tax	2,064	2,071	6,226	7,112	5,167	6,430
General internal tax on goods and services (VAT)	0	0	9,543	10,263	9,848	9,866
Judicial and administration fees	211	229	275	319	20	68
Charges for environmental pollution and use of natural resources	26	115	421	676	400	490
Other taxes and charges	532	523	526	537	108	120
Tax on assets	326	339	334	356	0	0
Total tax income	22,745	24,559	25,450	28,217	23,792	25,989
Income from own activity, penalties	1,054	655	214	250	29	66
Income from shares in profit, dividends and realised foreign exchange gains	192	284	4	181	0	0
Overpayments of organisations with direct relation, refunds of transfers	125	96	180	253	41	42
Other non-tax income	350	247	250	466	130	0
Interest received	157	455	566	543	150	150
Total non-tax income	1,878	1,737	1,214	1,693	350	258
Income from sale of fixed assets	28	25	64	39	0	0
State and other subsidies	4,503	6,720	11,341	13,881	(1,703)	(935)
Total income (before finance)	29,154	33,041	38,069	43,830	22,439	25,312

Source: City of Prague.

(1) Not examined by the auditors

(2) Approved budget of the City (without City districts) for comparison purposes

(3) Approved budget for the City (without City districts)

It is expected that the income side of the City budget for 2003, as approved in December 2002, will be increased by extraordinary sources of income in the amount of approximately CK 2.8 billion which, together with proposed financing mentioned in "Proposed further financing of City's capital expenditure" and "2002 Floods" above, will result in the City's sources of financing increasing by approximately CK 13 billion. Such extraordinary funds are planned to finance renovations and repairs required due to the 2002 floods as well as to finance the implementation of some extraordinary infrastructure projects. Given the statutory requirements relating to the budgetary process, such increase may be implemented only upon its approval by the General Assembly.

Own-source income

Own-source income comprises income from taxes and non-tax income which usually account for 70 - 80 per cent. of the City's overall income.

(i) Income from Taxes

Budgeted tax receipts represent the most important source of income. All taxes are collected by the State's financial offices and those attributable are distributed to the municipalities and the 14 regions. As the City is both a municipality and a region, it receives two shares of the redistributed tax income.

The three most important sources of tax income are value-added tax, corporate income tax and individual income tax. The share of redistributed taxes given to each municipality is determined on the basis of their share of the total population of the Czech Republic and their size. For 2002, the City's share of these taxes was 31.83 per cent. The City does not expect any legislative change in the method of tax redistribution in 2003 which would have any material effect on the City's tax-related income.

Each municipality further retains the entire local property tax. In Prague, local property tax constitutes the income of the districts.

Administration charges, local charges, and waste disposal charges paid to the City constitute quasi-fiscal income.

(ii) Non-tax income

Non-tax income comprises revenues from the City's own business activities (principally rents from the letting of its real estate portfolio as well as the proceeds of any sales of real estate), transfers of surpluses from its budgetary organisations and interest from deposits. The City's non-tax income for 2003 is budgeted at CK 258 million.

(iii) Subsidies

Subsidies from the State budget

The amount of subsidies included in the approved budget corresponds to approximately 2 per cent. of the City's income. The subsidies serve as partial compensation of costs in social areas, for the execution of state administration and for transport facilities.

A purpose-linked subsidy from the Ministry of Education, Youth and Sport of the Czech Republic for direct costs in education in the amount of approximately CK 6 billion a year has not yet been reflected in the 2003 budget of the City.

Subsidies from the City to the districts

A portion of the City's tax income is redistributed to the districts in the form of a subsidy. This portion amounts to approximately 11 per cent. of total income.

Transfers from the fund of taxable activity

This form is used to transfer to the budget revenues profits from the City's taxable activity and tax depreciations and residual values included in the costs of the taxable activity, but only up to the amount of available funds.

Expenditure

The table below summarises the City's current and capital expenditure for the years ended 31 December 1999 to 31 December 2002 and for the year ending 31 December 2003. The capital expenditure represents approximately one third of the total expenditure every year. It is expected that, if the City's sources of funding are increased during 2003, it will be reflected in the capital part of the City's expenditure in 2003.

	1999	2000	2001	2002	2002	2003
	actual	actual	actual	actual ⁽¹⁾	approved budget ⁽²⁾	approved budget ⁽³⁾
	CK millions					
Total current expenditure . . .	20,250	20,556	27,167	30,569	23,019	24,303
Total capital expenditure	10,000	10,875	16,043	15,508	9,870	7,046
Total expenditure	30,250	31,431	43,210	46,077	32,889	31,349

Source: City of Prague.

(1) Not examined by the auditors

(2) Approved budget of the City (without City districts) for comparison purposes

(3) Approved budget for the City (without City districts)

The following table shows detailed information on the City's total expenditure according to the individual budgetary categories for the years ended 31 December 1999 to 31 December 2002 and for the year ending 31 December 2003:

	1999	2000	2001	2002	2002	2003
	actual	actual	actual	actual ⁽¹⁾	approved budget ⁽²⁾	approved budget ⁽³⁾
CK millions						
Municipal development	2,946	2,321	2,482	2,500	2,037	2,485
Municipal infrastructure	2,658	3,069	3,432	3,189	2,432	2,437
Transport	11,814	13,012	15,861	15,232	12,815	10,064
Education	1,960	1,998	8,659	9,449	6,297	6,543
Healthcare and social benefits	2,310	2,593	3,596	3,903	2,252	2,472
Culture, tourism and sport ..	1,375	1,397	1,589	1,699	1,513	1,268
Security	1,036	1,153	897	1,023	881	810
Administration of municipal property	729	1,554	2,076	2,876	952	747
Internal administration	2,533	2,862	3,582	4,580	1,479	1,438
Treasury	2,889	1,472	1,036	1,626	2,231	3,084
Total expenditure	30,250	31,431	43,210	46,077	32,889	31,349

Source: City of Prague.

(1) Not examined by the auditors

(2) Approved budget of the City (without City districts) for comparison purposes

(3) Approved budget for the City (without City districts)

The following tables show detailed information on the City's current and capital expenditures for the years ended 31 December 1999 to 31 December 2002 and for the year ending 31 December 2003:

	1999	2000	2001	2002	2002	2003
	actual	actual	actual	actual ⁽¹⁾	approved budget ⁽²⁾	approved budget ⁽³⁾
CK millions						
Municipal development	266	256	264	264	257	235
Municipal infrastructure	1,387	1,509	1,554	1,890	1,161	1,293
Transport	7,771	8,453	7,768	8,233	7,651	7,680
Education	1,502	1,480	7,614	8,139	6,140	6,252
Healthcare and social benefits	1,988	2,146	3,169	3,453	2,130	2,139
Culture, tourism and sport ..	1,204	1,229	1,206	1,343	1,034	1,086
Security	886	966	640	762	669	703
Administration of property ..	354	490	829	885	439	478
Internal administration	2,379	2,603	3,118	3,987	1,307	1,352
Treasury	2,513	1,424	1,005	1,613	2,231	3,085
Total current expenditure	20,250	20,556	27,167	30,569	23,019	24,303

Source: City of Prague.

(1) Not examined by the auditors

(2) Approved budget of the City (without City districts) for comparison purposes

(3) Approved budget for the City (without City districts)

	1999	2000	2001	2002	2002	2003
	actual	actual	actual	actual ⁽¹⁾	approved budget ⁽²⁾	approved budget ⁽³⁾
CK millions						
Municipal development	2,680	2,065	2,218	2,236	1,780	2,251
Municipal infrastructure	1,270	1,560	1,878	1,299	1,271	1,145
Transport	4,043	4,559	8,093	6,999	5,163	2,384
Education	458	518	1,045	1,309	157	291
Healthcare and social benefits	323	447	427	450	122	333
Culture, tourism and sport . .	170	167	383	357	479	182
Security	149	186	257	260	212	107
Administration of municipal property	375	1,064	1,247	1,991	513	268
Internal administration	154	259	464	594	173	85
Treasury	378	50	31	13	0	0
Total capital expenditure . . .	10,000	10,875	16,043	15,508	9,870	7,046

Source: City of Prague.

(1) Not examined by the auditors

(2) Approved budget of the City (without City districts) for comparison purposes

(3) Approved budget for the City (without City districts)

Municipal development

This category comprises expenditure on construction and repair of City-owned properties. In 2003, priority will be given to the construction of apartments damaged by the 2002 floods, renovation of sidewalks and the construction and renovation of the utilities infrastructure. Over 90 per cent. of the budgeted expenditure on municipal development is budgeted for capital expenditure with the remaining approximately 10 per cent. comprising current expenditure.

Municipal infrastructure

Municipal infrastructure expenditure relates to waste disposal, maintenance of the City's green areas, parks and zoos as well as botanical gardens. In 2003, part of these resources will be devoted to the construction of an anti-flood barrier along certain parts of the Vltava river. The current expenditure exceeds capital expenditure in this category.

Transport

This category consists of two main parts – public transportation and the road network.

Subsidies to the public transportation system constitute the largest component of the City's expenditure. The primary public transportation carrier is the metro with a 50-kilometre network, followed by the 136-kilometre tram network and the 630-kilometre bus network. Besides the long-term planned investments in extending transportation routes and in purchasing new metro trains, trams and buses, a substantial amount of funds shall be spent in 2003 on the repair of the extraordinary damage caused to the metro by the flood (see "2002 Floods" above). Transport is expected to remain the principal item of the City's expenditure over the medium term.

The City's transport expenditure also includes funds to be spent on the construction and maintenance of roads. The road network (totalling 3,366 kilometres) has substantial traffic and ecological defects stemming from the communist era. The City's primary targets in this area consist of the completion of the internal and external ring roads as well as tunnel links connecting major roads. In 2003 and 2004, the City plans to spend funds on the reconstruction of a road network around a privately-financed arena presently under construction in an abandoned industrial zone.

Approximately 24 per cent. of budgeted expenditure on transport for 2003 is budgeted for capital expenditure, with the remaining 76 per cent. comprising current expenditure.

Education, Social Benefits and Healthcare

The share of current expenditure in this category constitutes 87 per cent. A part of it relates to the network of schools and educational facilities which (except for universities) the City operates.

In the area of social care, the City runs a number of old peoples' homes and homes for handicapped children as well as counselling centres for drug addicts and young people. The City also finances a number of non-profit organisations engaged in this area by way of grants for specific projects.

The City does not provide general healthcare as this is provided by the State and the private sector. The City's healthcare expenditure is primarily directed towards the operation and maintenance of ambulance and paramedic services as well as running a small hospital to treat emergency cases only.

Approximately 4 per cent. of the budgeted expenditure on education for 2003 is budgeted for capital expenditure, with the remaining 96 per cent. comprising current expenditure. Although current expenditure traditionally prevails over capital expenditure, in 2003 extraordinary sources of finance are to be used for capital expenditure to repair the educational facilities damaged by the floods.

Culture, Sport and Tourism

The City subsidises a number of theatres, museums, art galleries, orchestras and observatories as well as such major cultural events as the "Prague Spring" music festival. Capital expenditure comprises the reconstruction of churches, sport grounds and cultural objects.

Expenditure on tourism focuses on both the direct support of tourism in Prague, for example, City tourist guide services, and promotion of the City abroad through participation in special fairs and exhibitions.

Approximately 14 per cent. of the budgeted expenditure on culture, sport and tourism for 2003 is budgeted for capital expenditure, with the remaining 86 per cent. comprising current expenditure.

Security

Expenditure on security includes the cost of running the municipal police force and fire brigade.

The budgeted capital expenditure on security for 2003 is primarily destined to finance the purchase of police equipment.

Administration of municipal property

This budget category includes expenditure on street lighting, street cleaning and other similar municipal services as well as the maintenance of the City's extensive housing portfolio with the emphasis on the insulation of older panel-built houses.

The budgeted ratio of current and capital expenditure in this category for 2003 is the reverse of previous years with approximately 36 per cent. budgeted for capital expenditure and the remaining 64 per cent. comprising current expenditure compared with 69 per cent. budgeted for capital expenditure and 31 per cent. budgeted for current expenditure in 2002. This is due to extraordinary investment in the City properties damaged by floods in 2002.

Internal administration

Expenditure under this category principally comprises running the archives, births, deaths and marriages registries, telecoms and the payment of salaries of civil servants. Above-average maintenance costs ensue from the 2002 floods. An extra item in this budget category falls on the education of the City administration staff in order to meet EU requirements in preparation for EU membership scheduled on 1 May 2004.

Approximately 6 per cent. of the budgeted expenditure on internal administration for 2003 is budgeted for capital expenditure with the remaining 94 per cent. comprising current expenditure.

Treasury

These funds for general current expenditure constitute mainly budget reserves of the City, its debt service and expenses relating to financial operations of the City (including hedging). The general reserve can only be drawn if it is so approved by the City Council (and in some cases, General Assembly).

THE FINANCIAL STATEMENTS OF THE CITY

Introduction

The City's financial statements must be, according to Act No 131/2000 Coll. on the City of Prague, examined by an auditor. The City's financial accounts for the years ending 31 December 1999 and 31 December 2000 were examined by PricewaterhouseCoopers Audit, s.r.o.

The financial statements for the year ended 31 December 2001 were examined by Deloitte & Touche, s.r.o. The financial statements for the year ended 31 December 2002 have not been examined by auditors as of the date of this Offering Circular. The examination will be carried out by Deloitte & Touche, s.r.o. in June 2003.

The examination of the financial statements is governed by the Act on Auditors and relating by-laws of the Chamber of Auditors of the Czech Republic (standard No 52). According to this standard, the report on the examination does not meet the requirements for an auditor's report and is not, therefore, an auditor's report. The examination is primarily focused on the compliance of operations with the law, budget rules and accounting principles.

The report on the examination of the year ended 31 December 1999 contained an "emphasis of matter" paragraph according to which the rights to real property with a total value of CK 9,887 million have not been clarified. It was not possible to estimate what changes could affect the property when the rights are clarified.

The reports on examination of years ended 31 December 2000 and 31 December 2001 were issued without such an emphasis.

Accounting and Financial Statements of the City

The annual financial statements of the City include the operations and assets of the City and the city districts. In addition, the districts have separate budgets approved by their General Assemblies.

The annual financial statements are composed of a balance sheet, a profit and loss statement prepared on an accrual basis, and a report on the compliance with the budget established on a cash basis.

The annual financial statements also include an annex which describes the main accounting principles and provides for details on balances contained in the accounting and financial statements. A cash-flow statement is not prepared by the City.

The City does not prepare its accounting and financial statements under International Accounting Standards (IAS) or in a consolidated form. In accordance with the effective accounting rules applicable to state organisational branches, territorially self-governing units and contributory organisations, the consolidation of financial statements of the City and founded contributory organisations and business corporations in which the City has an equity investment is not required. Should these companies be consolidated, the City's financial situation and its results of operations would differ.

Long-term Assets

The title to the real property of the City representing approximately 3 per cent. of the City's assets as of 31 December 2002, mainly plots of land, has not yet been entered in the Real Estate Register. A number of plots of land are subject to restitution claims. Even though the number of such claims is decreasing, it is still a significant number. In case the court decides any such claim adversely for the City, the property would be removed from the City's assets. To date, the number of properties that have been removed from the City has not been material.

Long-term tangible assets which were acquired by transfer (with the exception of plots of land) are valued at their acquisition cost. The acquisition cost is determined as the value at which the assets were accounted for in the books of the previous owner, including an increase for technical appreciation.

Major differences in the accounting procedures of the City and corporate entities

Fixed Assets

Fixed assets acquired from the budget sources and used for main budgeted activity are not depreciated. The City records depreciation of intangible and tangible fixed assets only for fixed assets used for generating taxable income. Fixed assets are valued at historical cost or administrative prices which are different from the market prices.

Receivables

The City does not create or record provisions for bad debt with the exception of provisions against receivables associated with its taxable activities.

Inventory

Provisions against inventory are not created as this is not provided for in the current accounting legislation.

Accrual and Deferrals

Budget income and expenses are recorded on a cash basis and expenses and income related to taxable activities are recorded on an accrual basis.

Reserves

The City can create statutory reserves only for its taxable activities. Their creation and release is regulated by a special law and reflected in the Income Tax Act.

Funds

The equity is equal to the sum of funds (asset, financial and special funds) and profit or loss.

Balance Sheet

The following table shows the aggregated, non-consolidated balance sheet as at 31 December 1999, 31 December 2000 and 31 December 2001 relating to the City and prepared according to the Czech accounting standards applicable for organisational units of the state, self-administered territorial units and contributory organisations.

Balance Sheet

	31 December 1999	31 December 2000	31 December 2001
	in CK '000		
ASSETS			
Fixed Assets	223,382,672	237,299,259	244,433,753
Long-term intangible fixed assets	243,039	307,826	328,642
Long-term tangible fixed assets	178,986,026	193,137,241	201,005,668
Long-term financial investment	44,153,607	43,854,192	43,099,443
Current assets	20,182,517	22,734,854	24,401,986
Inventories	86,014	95,722	41,565
Receivables	8,195,469	9,121,312	9,219,373
Financial assets	622,892	12,904,663	14,385,276
Other assets	11,278,142	613,157	755,772
TOTAL ASSETS	243,565,189	260,034,113	268,835,739
EQUITY AND LIABILITIES			
	31 December 1999	31 December 2000	31 December 2001
	in CK '000		
Own sources	222,944,835	238,058,152	240,194,497
Equity			
Funds	224,873,672	238,857,078	246,549,445
Equalisation account	484,874	706,196	793,332
Profit (Loss)			
Profit (Loss)	1,029,690	2,076,599	1,433,883
Retained earnings	1,099,075	(454,320)	403,404
Profit (Loss) in approval process	0	0	0
Transfer of accounted income and expenditures from previous years	(4,542,476)	(3,127,401)	(8,985,567)
Liabilities	20,620,354	21,975,961	28,641,242
Reserves	918,600	637,690	405,282
Long-term borrowings and current bank loans	373,570	367,051	395,116
Long-term credit and bonds	11,301,031	11,271,460	17,524,309
Other long-term payable	11,365	293,285	268,744
Payables and temporary accounts of liabilities	8,015,788	9,406,475	10,047,791
TOTAL EQUITY AND LIABILITIES	243,565,189	260,034,113	268,835,739

Source: City of Prague.

Profit and loss statement

The following table shows the aggregated, non-consolidated statements of profit and loss for the years ended 31 December 1999, 31 December 2000 and 31 December 2001 prepared in accordance with the Czech accounting standards for the organisational units of the state, self-administered territorial units and contributory organisations valid.

	31 December 1999	31 December 2000	31 December 2001
		in CK '000	
Revenues from the sale of goods and services	5,584,019	6,266,318	6,329,748
Revenues from the sale of assets	1,128,727	708,471	1,390,294
Other operational revenues	322,216	300,820	443,037
TOTAL OPERATIONAL REVENUES	7,034,962	7,275,609	8,163,079
Costs of goods sold	(3,379,907)	(3,870,888)	(4,194,852)
Salary expenses	(73,214)	(69,383)	(87,199)
Depreciation	(1,480,984)	(1,627,990)	(1,751,970)
Increase/decrease in reserves and adjustments	(275,841)	270,211	144,182
Other operational expenses	(379,925)	(430,489)	(383,307)
TOTAL OPERATIONAL EXPENSES	(5,589,871)	(5,728,539)	(6,273,146)
Operating income	1,445,091	1,547,070	1,889,933
Profit from sale of securities	62,256	1,302,155	43,309
Grains on financial assets	85,829	292,481	260,115
PROFIT FROM FINANCIAL OPERATIONS	148,085	1,594,636	303,424
Income before taxation	1,593,176	3,141,706	2,193,357
Income tax	(563,486)	(1,065,107)	(759,473)
NET INCOME	1,029,690	2,076,599	1,433,884

Source: City of Prague.

Balance sheet of contributory organisations

The following table shows the consolidated balance sheet as at 31 December 1999, 31 December 2000 and 31 December 2001 of the City's contributory organisations prepared according to the Czech accounting standards for organisational units of the state, self-administered territorial units and contributory organisations.

	31 December 1999	31 December 2000	31 December 2001
	in CK '000		
ASSETS			
Fixed assets			
Long-term tangible fixed assets	14,925,368	10,466,839	19,244,622
Long-term intangible fixed assets	55,886	62,122	123,289
Long-term financial investments	1,506	458	234
Accumulated depreciation	(4,588,744)	(3,344,952)	(6,710,507)
Total.	<u>10,394,016</u>	<u>7,184,467</u>	<u>12,657,638</u>
Current Assets			
Inventories	145,873	152,452	208,752
Receivables	715,687	563,673	527,036
Other assets	71,906	42,978	54,905
Financial Assets	1,159,422	1,215,823	2,081,070
Total.	<u>2,092,888</u>	<u>1,974,926</u>	<u>2,871,763</u>
TOTAL ASSETS	<u>12,486,904</u>	<u>9,159,393</u>	<u>15,529,401</u>
	31 December 1999	31 December 2000	31 December 2001
	in CK '000		
EQUITY AND LIABILITIES			
Equity			
Assets funds	10,371,344	7,159,100	12,677,151
Financial funds	1,019,581	1,013,139	1,284,027
Result of the year			
Profit (loss)	55,942	67,407	41,175
Retained earnings	(302,806)	(260,194)	(216,589)
Total.	<u>11,144,061</u>	<u>7,979,452</u>	<u>13,785,764</u>
Liabilities			
Payables and temporary accounts of liabilities	1,320,108	1,158,847	1,723,091
Long-term borrowings and currents bank loans	12,676	13,922	175,588
Reserves	10,059	7,172	8,041
Total.	<u>1,342,843</u>	<u>1,179,941</u>	<u>1,743,637</u>
TOTAL EQUITY AND LIABILITIES	<u>12,486,904</u>	<u>9,159,393</u>	<u>15,529,401</u>

Source: City of Prague.

THE CZECH REPUBLIC

The Czech Republic does not guarantee securities issued by the City. The following information, which has been derived from various publicly available sources and analysts' researches, is included in view of the City's status as the capital city of the Czech Republic.

General

Geography and Population

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

The Czech Republic covers an area of approximately 80,000 square kilometres. In the 2001 census its population was 10.23 million. Approximately one-quarter of the population lives in the country's five largest cities.

History

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

Between 1918 and 1937, Czechoslovakia was politically stable and economically prosperous. The country had inherited most of the Austro-Hungarian Empire's industrial capacity, and its labour force was considered highly skilled. Subsequent to Germany's invasion of Czechoslovakia in 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, drawing Czechoslovakia into the political and economic sphere of the Soviet Union. A new Constitution cemented communist party control. Two rounds of nationalisation, in 1945 and in 1948, eliminated private ownership of property in the country, and the communist regime remained in power for more than 40 years.

Demands for greater political freedom or "socialism with a human face" culminated in the appointment of a reform-orientated government during the spring of 1968. However, in August 1968, an invasion by Soviet and Warsaw Pact soldiers forcibly suppressed these reform efforts, widely known as the Prague Spring, and the communist regime remained in control for a further 20 years.

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.

On 1 January 1993, the Czech and Slovak Republics peacefully separated and became formally independent states. Legally, each republic became a successor to the former Czechoslovakia, property of which was divided on a two-to-one ratio (Czech to Slovak Republic), reflecting the relative size of populations and economies. Separate monetary systems and currencies were introduced by each republic in February 1993.

The Czech Political System

The constitution of the Czech Republic provides for the separation of executive, legislative and judicial powers.

President

The President of the Czech Republic is the head of state, elected to a five-year term by a joint session of Parliament. The President may serve a maximum of two successive terms in office. Presidential authority is limited, but the President appoints various officials (e.g. Prime Minister and Government Ministers, members of the Council of the Czech National Bank, judges, University professors and Army generals) and can dissolve the Chamber of Deputies under certain circumstances. President Václav Havel, who was previously President of Czechoslovakia between 1989 and 1992, has served two terms between 1992 and 2003 as the first President of the Czech Republic.

Václav Havel's term ended on 2 February 2003 and on 28 February 2003 Parliament elected Václav Klaus to replace him.

Government

The executive branch of government in the Czech Republic consists of nineteen members of the government ("Ministers"), including the Prime Minister.

Parliament

The Parliament of the Czech Republic consists of two houses: a Chamber of Deputies with 200 members, and a Senate with 81 members. The members of the Chamber of Deputies are elected for a four-year term and the members of the Senate are generally elected for a six-year term, with one-third of the total number of seats elected every two years. The Senate has the power to review the legislation passed by the Chamber of Deputies and, unlike the Chamber of Deputies, cannot be dissolved. While the Chamber of Deputies may over-rule the negative vote of the Senate (and the President) in respect of standard laws, amendments to the Constitution require the consent of both the Chamber of Deputies and the Senate.

Judiciary

The Czech judicial system consists of a Constitutional Court, a Supreme Court, a Supreme Administrative Court, two Superior Courts, eight Regional Courts and a number of District Courts. The Supreme Court, Superior Courts, and Regional Courts have limited appellate and original jurisdiction. The Constitutional Court has limited original jurisdiction. The Supreme Court and the Superior Courts exercise their original jurisdiction only in a limited number of cases. The Supreme Administrative Court created as of 1 January 2003, heads the system of administrative courts (attached to Regional Courts) which have the power to review the legality of nearly all kinds of administrative decisions. All judges, except those of the Constitutional Court, serve for life after appointment by the President.

The Czech legal system is less developed than the legal systems of the United States and most Western European countries. In particular, the Czech judiciary is less experienced in corporate, business, securities and bankruptcy laws and litigation, and enforcing private property rights in complex commercial legal cases is often cumbersome.

Local Government

The Czech Republic has a two-tier system of local government consisting of over 6,200 municipalities and 14 regions. Local governments have the authority to impose local levies within the limits established by federal law. Units of the second tier of government, regions, have extensive authorities in health care, social, transportation and other areas.

Recent Political Developments

In June 2002, elections to the Chamber of Deputies were held in the Czech Republic. The Czech Social Democratic Party ("ČSSD") won the elections with 30.2 per cent. of the vote, to 24.5 per cent. for Civic Democratic Party ("ODS"), 18.5 per cent. for the Communist Party of Bohemia and Moravia ("KSČM"), and 14.3 per cent. for the coalition comprising of Christian Democratic Union – Czechoslovak People's Party (the "KDU-ČSL") and, Union of Freedom (the "US") – Democratic Union ("DEU"). Vladimír Špidla, the chairman of the ČSSD, formed the new coalition government composed of members of his own party together with those of the coalition KDU-ČSL and US. The new government, having a narrow majority of 101 seats of total 200, passed successfully a vote of confidence in July 2002.

The Government has established the following priorities for its forthcoming four-year term of office:

- the accession of the Czech Republic to the European Union, while at the same time negotiating optimal conditions for the Czech Republic;
- ensuring the safety of citizens and the protection of their lives, health, rights and property;
- the development of a welfare state on the basis of a socially-oriented and ecologically-sound market economy, while at the same time maintaining social cohesion and social peace;
- the development of conditions for free enterprise, the maintenance of economic development, the growth of the GDP and the harmonious development of regions and municipalities;
- the intensive fight against all forms of corruption and serious economic crime;
- multifaceted support for education, science and culture;
- the development of the democratic state governed by law and elements of local government;
- the progressive strengthening of public finances;
- permanent sustainable development and the protection of the environment;
- well-balanced foreign policy and involvement in the fight against international terrorism;
- strengthening the participation of the citizens in decision-making;
- comprehensive support for the family and newly married couples.

The Government considers the consolidation of public finances to be a necessary prerequisite to maintaining the sustainable economic growth required for accession to the European Union. The strategic objective of the Government is, therefore, to put public finances into a form that complies with the future membership of the Czech Republic in the European Union and which will subsequently meet criteria for integration with and participation in the European Monetary Union, including the introduction of the Euro.

The Government intends to initiate broad-based debate on the reform of public finances ensuring that the budget deficit will not exceed the range of 4.9–5.4 per cent. of GDP in 2006 and that it exhibits a tendency to fall during the following years.

The reform of public finances will be based primarily on the following principles: the Government will approve a medium-term budgetary forecast for the four-year period so that beginning from 2005 the budget deficit as a proportion of GDP will be reduced. The forecast will also set binding limits on expenditure for chapters of the State Budget, including state funds for individual ministries for the entire term of office of this Government. These limits will be adhered to during the preparation and implementation of concept documents relating to the developments of the individual ministries. The Government will in this way implement the much-needed principle of multi-annual budgetary programming as a binding procedure for the preparation of budgets. In order to achieve objectives intended to stabilise budgets in the long-term while preserving the quality of public services and maintaining social cohesion, emphasis will be placed on developing a programme-oriented structure for the individual chapters of the State Budget.

Membership in International Organisations

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. The Czech Republic is a member of the International Monetary Fund (the "IMF"), the International Bank for Reconstruction and Development (the "IBRD"), the European Bank for Reconstruction and Development (the "EBRD") and the World Trade Organisation (the "WTO"). The Czech Republic is also a member of the Central European Free Trade Agreement (the "CEFTA"), which includes Hungary, Poland, Romania, Slovakia, Slovenia and Bulgaria. The Czech Republic also participates in the Bank for International Settlements (the "BIS"). At the end of 1997, the Czech Republic formally applied to join NATO, and joined NATO as a full member in March 1999.

European Union

In 1993, the Czech Republic signed an Association Agreement with the EU, and in January 1996 applied for full EU membership. At the Luxembourg summit in 1997, the EU offered to initiate new negotiations for entry with 11 candidate countries, including the Czech Republic. In 1997, the Czech Republic was

one of six selected countries, which began pre-accession negotiations. By the end of 1997, the Czech Republic had concluded a draft of the principles of the Accession Partnership and the National Programme for Adoption of EU Legislation, which aims at the creation of a well-defined programme for membership preparation. The Accession Partnership between the Czech Republic and the EU was signed in March 1998. Throughout 1998 to 2002, intense negotiations were held between the Czech Republic and the European Union. Those negotiations were concluded in December 2002 in Copenhagen where the Czech Republic, along with 7 other countries of the former Soviet bloc (and Malta and Cyprus), received an invitation to join the EU. It is expected that the Czech Republic will join the EU on 1st May 2004. Prior to that, in June 2003, a referendum will be held in the Czech Republic to approve the Czech Republic joining the EU.

Organisation for Economic Co-operation and Development

The Organisation for Economic Co-operation and Development (the "OECD") has assisted the Czech Republic in shaping a free market economy and a democratic system for drafting the legal norms that regulate the economic sector. As one of the preconditions to become an OECD member, the Czech Republic adopted a Foreign Exchange Act in early 1995, which introduced substantial convertibility of the Czech currency. In 1995, the Czech Republic became the first Central European country to become a member of the OECD. The Czech Republic has actively participated in the work of most OECD working groups in areas concerning finance, taxes, environmental matters, employment, industry, education, public management and regulatory reform. Throughout 1997, the Czech Republic was extensively involved in negotiating the OECD Multilateral Agreement on Investment. Also in 1997, the Czech Republic signed the OECD Convention on Combating Bribery of Foreign Officials in International Business Transactions. The Czech Republic also plays an active role in the OECD's Nuclear Energy Agency, of which it became a member in 1996, and co-operates with the OECD's International Energy Agency.

The Czech Economy

The Czech Republic's per capita GDP is among the highest in the region, amounting to USD 5,516 in 2001. The Czech Republic is very open with both imports and exports of over 71 per cent. of GDP. The contribution of the service sector to total GDP has increased significantly in recent years at the expense of the industrial sector and amounts to 60 per cent. Yet the industrial sector, which still benefits from lower wages in the Czech Republic than in the EU, grows with a pace of around 6 per cent. per annum (2001) and attracts foreign investment. Production of vehicles, rubber and plastics, electronic devices and manufacturing machines constitutes the four most dynamic branches with a one-third share of overall industrial production. Along with the corporate sector, the banking sector underwent some drastic changes over the last few years. All of the four largest previously state-owned commercial banks have been taken over by foreign banks. In August 1999, Belgium's KBC acquired the fourth largest bank (ČSOB), while Austria's Erste Bank obtained a majority stake in the second largest bank Česká Spořitelna, and in 2001 Société Générale took over in Komerční banka. In 2000, KBC (ČSOB) also took over the assets of earlier privatised IPB after it was declared illiquid by the Czech National Bank following the withdrawal of deposits. These privatisations all had in common that bad debts were transferred to the Konsolidáční agentura ("ČKA" – a special purpose vehicle of the government for restructuring of industry and financial sector in the Czech Republic) and that the government raised the capital to meet the BIS criteria. By cleaning up banks' balance sheets, room was created to resume credit supply. At the same time, foreign ownership led to a more selective credit policy, which improved the health of the corporate sector.

Economic policy

Following the recession between 1997 and 1999, the country has been preserving a modest yet constant growth of GDP (3 per cent. per annum in 2002). The main supportive factors were strong foreign investment in Czech companies, restructuring, and improved export ability of Czech companies which was able to cope with the substantial strengthening of the Czech currency against EUR and USD (-5 per cent. y-o-y and 14 per cent. y-o-y, respectively). This indicates the increasing health of the Czech corporate sector. Growth in personal and government consumption are expected to remain modest because of the soaring budget deficit and the rise in unemployment (to around 10 per cent.), due to the ongoing corporate restructuring. GDP growth is expected to be somewhat lower due to the global recession and appreciation of the Czech koruna hampering the competitiveness of Czech exports.

Consumer inflation came down rapidly from 8.4 per cent. at the end of 1997 to 3.1 per cent. in August 2002 (12-month average), mostly due to very weak domestic demand during the recession. Food prices were also depressed by increasing competition in this sector. This enabled the Czech National Bank to ease monetary policy substantially, lowering the interest rate to the current level of 3.0 per cent. However, the pace of monetary easing was too slow due the repeated undershooting of inflation rate targets. The initial inflation rate target has been set to 3.0 per cent. – 5.0 per cent. at the end of 2001 aiming to decrease CPI to 2.0 per cent. – 4.0 per cent. interval at the end of 2005.

Although the deflationary effects of the external cost factors can be expected to unwind during the course of 2003, domestic demand and regulated prices will both remain anti-inflationary. The forecast assumes that annual headline inflation will rise back to 2.5 per cent. at the end of 2003. This means that it will be at the lower boundary of the target band at the horizon of most effective transmission.

Since 2001, the koruna has appreciated against both the euro and the dollar. The main factor underlying this appreciation was the strong inflow of foreign direct investments due to the accelerating privatisation process. Due to continuing FDIs, the koruna might remain strong.

The widening of the budget deficit to nearly 9 per cent. of GDP at the end of 2002 is the result of accumulated losses and subsidies to the so-called transformation institutions, particularly CKA. Without those losses and subsidies, it is estimated the deficit would amount to nearly 5 per cent. of GDP in 2002. However, the losses of the CKA can be expected to continue weighing on the budget during the next few years. The finance ministry estimates that it will have to pay additional CK 100 billion (some 4 per cent. of GDP) in 2003 – 2005 to cover all of CKA's likely losses.

The new centre-left coalition does not appear to be substantially tightening fiscal policy. The reform of public sector finances should be based on a combination of revenue and expenditure measures. State spending should be restrained, but not enough to threaten the quality of public services or social harmony. The coalition agreement set a budget deficit target of 4.9-5.4 per cent. of GDP by 2006. Assuming that all losses of CKA should be covered by the end of 2005, as planned by the finance ministry, this means that compared with the 2002 budget (adjusted for bank-restructuring costs), the new finance minister, Bohuslav Sobotka, is actually seeking to ease fiscal policy. Mr Sobotka has already indicated that the budget deficit would reach the Maastricht criterion of 3 per cent. of GDP only in 2007 or 2008.

Current account

The current account deficit amounted to 2.1 per cent. of GDP in 2001, down from 2.8 per cent. in 2000. Exports grew strongly by 8.9 per cent., slightly less than import growth which was up by 9.1 per cent. The country's main trading partner was Germany followed by Slovakia and Austria. A nominal decrease in trade activity is caused mainly by strong appreciation of domestic currency. In spite of the continuing good performance of the Czech exports under current circumstances of global slowdown, the current account deficit is expected to widen from 2.1 per cent. at the end of 2001 to 3.8 per cent. and 3.2 per cent. of GDP in 2002 and 2003 respectively. This is due to strong import demand on the back of the strong koruna, an expected increase in energy prices and a slight pick-up in domestic demand. The strong inflow of foreign investments, reaching USD 6.4 billion in the first half of 2002 and expected to continue in the coming years, should be more than sufficient to cover this deficit.

Foreign debt and liquidity

The foreign debt and liquidity position is very sound, and is one of the fundamentals for the low degree of country risk. The debt to export ratio amounted to 0.65 in 2001, which is very modest. This ratio is expected to come down even further in the coming years as exports will rise substantially. Government debt is well below the average in the euro zone, and lower than the Maastricht treaty criterion of 60 per cent. of GDP. However, the debt-to-GDP ratio has been steadily rising in the Czech Republic in the past decade.

Foreign reserves increased from USD 4.5 billion in 2001 to USD 23.7 billion in 2002, which substantially surpasses the country's short-term foreign debt. The import cover amounted to 4.8 in 2001 and this ratio has risen to 6.3 in 2002.

Basic indicators Ratings – the Czech Republic

Population (mn): 10.27

GDP per capita (USD): 5,516

GDP growth (% , ave 91-01): +0.5

Population growth (idem): 0.00

Moody's: A1

Standard & Poor's: A+

Hermes: 2

	Unit	1998	1999	2000	2001E	2002F	2003F
Nominal GDP	\$ bn	56.9	55.0	51.4	56.7	72.3	83.1
GDP per capita	\$	5,531	5,347	5,004	5,516	7,034	8,073
Real GDP growth	% yoy	-1.0	0.5	3.3	3.3	3.0	4.0
Private consumption	% yoy	-1.8	1.9	2.3	3.9	3.5	3.5
Gross fixed investment	% yoy	0.7	-1.0	5.3	7.2	6.0	8.0
Unemployment rate	% eop	7.5	9.4	8.8	8.9	8.4	7.8
Consumer price inflation (average)	%	10.7	2.1	3.9	4.7	2.1	2.6
Consumer price inflation (end-period)	%	6.8	2.5	4.0	4.1	2.0	3.0
General government budget balance	% GDP	-6.3	-7.6	-5.5	-4.6	-8.7	-7.8
Primary balance	% GDP	-5.1	-6.6	-4.4	-3.6	-7.6	-6.6
Total public debt	% GDP	22.0	25.6	27.0	37.2	45.2	39.6
Two-week repo rate (end-period)	%	9.50	5.25	5.25	4.75	3.25	3.75
Monetisation M2	% GDP	69.6	72.8	74.5	74.0	77.5	82.7
Exchange rate (end-period)	\$/CK	29.8	35.8	37.2	35.6	28.7	30.7
Exchange rate (average)	\$/CK	32.3	34.6	38.6	38.0	31.8	29.8
Exchange rate (end-period)	/CK	35.1	36.0	35.1	31.7	29.0	28.5
Exchange rate (average)	/CK	36.1	36.9	35.6	33.9	30.3	28.5
Exports (fob)	\$ bn	26.4	26.3	29.1	33.3	35.0	36.0
Imports (fob)	\$ bn	28.9	28.2	32.3	36.5	38.3	39.5
Trade balance	\$ bn	-2.6	-1.9	-3.2	-3.2	-3.3	-3.5
Current account balance	\$ bn	-1.3	-1.6	-2.8	-2.7	-2.6	-2.5
Current account balance as % of GDP	% GDP	-2.3	-2.9	-5.5	-4.7	-3.6	-3.0
Foreign exchange reserves excluding gold	\$ bn	12.6	12.9	13.1	14.5	20.0	21.5
Import cover (reserves/imports)	Months	5.2	5.5	4.9	4.8	6.3	6.5
Total foreign debt	\$ bn	24.0	22.6	21.4	21.7	21.8	22.3
Total foreign debt as % of GDP	% GDP	42.2	41.1	41.6	38.2	30.1	26.8
Short-term foreign debt	\$ bn	9.1	8.8	9.1	9.0	9.2	9.5
Total foreign debt service	\$ bn	6.0	4.8	5.1	4.0	4.8	3.1
Total foreign debt service as % of foreign exchange receipts	% exports	22.6	18.5	17.4	12.1	13.7	8.6

Source: Central Bank, IIF, IMF, Ministry of Finance, OECD, ABN AMRO

Export markets (1999)

	% share
Germany	40.5
Slovakia	7.7
Austria	6.0

Import markets (1999)

	% share
Germany	32.3
Russia	6.5
Slovakia	6.0

Export structure (1999)

	% share
Machinery and transport equipment	44.5
Raw materials, semi-finished and chemical products	39.1
Miscellaneous manufactured articles	12.6

Import structure (1999)

	% share
Raw materials, semi-finished and chemical products	44.8
Machinery and transport equipment	40.0
Miscellaneous manufactured articles	10.4

TAXATION

The following is a general description of certain Czech Republic tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. 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. This summary is based upon the law 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.

The Czech Republic

(a) **Definitions** – In this Taxation Section:

“Czech Noteholders” means:

- (i) a legal entity which has its seat or the place of its management in the Czech Republic; or
- (ii) an individual who has his or her domicile or usually resides in the Czech Republic; and

“Non-Czech Noteholders” means:

- (i) a legal entity which has its seat and the place of its management outside the Czech Republic; or
- (ii) an individual who has his or her domicile and usually resides outside the Czech Republic, whereby “place of management” means the address of the place from which the legal entity is managed.

(b) **Principal and Interest** – For Czech Noteholders, payments under the Notes have to be included in taxable income as required by the laws of the Czech Republic. No withholding tax applies to these payments.

For Non-Czech Noteholders, payments under the Notes are not taxable in the Czech Republic and no withholding tax applies on these payments. However, Czech Ministry of Finance is currently considering an amendment to Czech tax law based on which the payments under the Notes would be taxable in the Czech Republic if they were attributable to a permanent establishment of the non-Czech Noteholder in the Czech Republic.

(c) **Capital Gains** – Capital gains realised by a Non-Czech Noteholder from the sale or exchange of the Notes are not subject to income tax in the Czech Republic provided that the payment (or non-monetary consideration) for the Notes is made (or provided) by:

- (i) a Non-Czech Noteholder; or
- (ii) a Czech Noteholder (or a permanent establishment in the Czech Republic of a Non-Czech Noteholder) and the Non-Czech Noteholder realising the capital gains is “resident in a State” within the meaning of a double taxation treaty between that State and the Czech Republic, pursuant to the terms of which the Czech Republic may not impose any income tax on such capital gains.

If a Non-Czech Noteholder carries on business in the Czech Republic through its permanent establishment situated therein, capital gains realised by the Non-Czech Noteholder from the sale or exchange of the Notes through that permanent establishment are subject to income tax in the Czech Republic.

(d) **Other** – No stamp, registration or other taxes or duties are payable in the Czech Republic in connection with the acquisition, ownership, sale or exchange of the Notes by a Non-Czech Noteholder.

Proposed EU Savings Tax Directive

The European Union is currently considering proposals for a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be 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 an individual resident in that other Member State, subject to the right of certain Member States to opt instead for a withholding system for a transitional period in relation to such payments.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of ABN AMRO Bank N.V., Bayerische Hypo- und Vereinsbank AG, Bayerische Landesbank, Česká spořitelna, a.s., Československá obchodní banka, a.s., Commerzbank Aktiengesellschaft, Deutsche Bank AG London, Dexia Banque Internationale à Luxembourg société anonyme acting under the name of Dexia Capital Markets Kommunalkredit Austria AG and Salomon Brothers International Limited (the "Dealers"). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a Dealer Agreement dated 3 March 2003 (the "Dealer Agreement") and made between the Issuer and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, 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. The Dealer Agreement 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.

United States of America: *Regulation S Category 1; TEFRA D or TEFRA C as specified in the relevant Pricing Supplement or neither if TEFRA is specified as not applicable in the relevant Pricing Supplement.*

The Notes have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered or sold within the United States or to U.S. persons. Each of the Dealers has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver the Notes within the United States or to U.S. persons. In addition, until 40 days after the commencement of any offering, an offer or sale of Notes from that offering within the United States by any dealer whether or 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.

The Czech Republic

Each Dealer has represented, warranted and agreed that:

- (a) **No Notes issued in the Czech Republic** – None of the Notes have been issued or will be issued in the Czech Republic within the meaning of the Czech Act on Bonds No. 530/1990 Coll., as amended (the "Bonds Act") and thus, no application for an approval of the terms and conditions of the issue of any of the Notes has been filed with the Czech Securities Commission (the "Securities Commission").

- (b) **No public offering** – None of the Notes have been publicly offered or will be publicly offered within the meaning of the Czech Act on Securities No. 591/1992 Coll., as amended (the “Securities Act”) and thus, no application for an approval of a prospectus for any of the Notes has been filed with the Securities Commission. Under the Securities Act, “public offering” means any conduct whereby an offeror informs a wider circle of persons about the terms and conditions of the acquisition of the Notes, provided that an agreement aimed at the acquisition of the Notes will be entered into by an acceptance of these terms and conditions, or the offeror invites a wider circle of persons to submit offers to enter into such agreement on the basis of these terms and conditions. Conduct will not amount to a public offering within the meaning of the Securities Act if:
- (i) the offer of the Notes is addressed solely to institutional investors or securities dealers; or
 - (ii) the offer of the Notes is addressed to less than 100 persons; or
 - (iii) the Notes offered can be acquired only for a price or consideration the value of which exceeds an amount equivalent to EUR 40,000 per one investor; or
 - (iv) the denomination of each Note offered is EUR 40,000 (or, if denominated in another currency, an equivalent of EUR 40,000) or more.
- (c) **No admission to trading on a public market** – None of the Notes have been admitted or will be admitted to trading on a public market within the meaning of the Securities Act and thus, no application for approval of a prospectus of any of the Notes has been filed with the Securities Commission and no application for admission of any of the Notes to trading on a public market has been filed with an organiser of a public market. Under the Securities Act, “public market” means a market organised by a stock exchange or another legal entity licensed to do so under the Securities Act.

Each Dealer has represented, warranted and agreed that it has complied and will comply with all the requirements of the Bonds Act and the Securities Act and has taken and will take no action which would result in an approval of the Securities Commission being required in respect of the Notes in accordance with the Bonds Act, the Securities Act or the practice of the Securities Commission.

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 Pricing Supplement, 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 Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands the Offering Circular or any Pricing Supplement comes 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 Notes or have in their possession or distribute such offering material, in all cases at their own expense.

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 official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed “General” above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Pricing Supplement (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 document.

GENERAL INFORMATION

Listing

Application has been made to list Notes issued under the Programme on the Luxembourg Stock Exchange and, in connection therewith, the Luxembourg Stock Exchange has assigned registration number 12823 to the Programme. Prior to the listing of any Notes, the constitutional documents of the Issuer and the legal notice relating to the issue will be registered with the Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*), where copies of these documents may be obtained upon request.

However, Notes may 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.

Authorisations

The establishment of the Programme was authorised by a resolution of the City Council of the Issuer passed/given on 25 February 2003. Each issue of Notes will be authorised by a resolution of the General Assembly of the Issuer. 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.

Clearing of the Notes

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 Pricing Supplement relating thereto. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

Use of proceeds

The net proceeds of the issue of each Tranche of Notes will be applied by the Issuer to meet part of its general financing requirements.

Litigation

Save as disclosed in this Offering Circular, there are no litigation or arbitration proceedings against or affecting the Issuer or any of its assets or revenues, nor is the Issuer aware of any pending or threatened proceedings of such kind, which are or might be material in the context of the Programme or the issue of the Notes thereunder.

No significant change

Save as disclosed in this Offering Circular and since 31 December 2001 there has been no material adverse change in the financial position or prospects of the Issuer.

Documents available for inspection

For so long as the Programme remains in effect or any Notes shall be outstanding, copies and, where appropriate, English translations of the following documents may be inspected (and in the case of (e) below obtained) during normal business hours at the specified office of the Principal Paying Agent and the Luxembourg Listing Agent, namely:

- (a) the Trust Deed;
- (b) the Agency Agreement;
- (c) the Dealer Agreement;
- (d) the Programme Manual (which contains the forms of the Notes in global and definitive form);
- (e) any Pricing Supplement 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 Pricing Supplement will only be available for inspection by the relevant Noteholders.)

Financial statements available

For so long as the Programme remains in effect or any Notes shall be outstanding, copies and, where appropriate, English translations of the most recent publicly available financial statements of the Issuer beginning with such financial statements for the years ended 31 December 2000 and 31 December 2001 may be obtained during normal business hours at the specified office of the Principal Paying Agent and the Luxembourg Listing Agent.

The Issuer does not produce interim financial statements.

THE ISSUER

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