

SIMPLIFIED PROSPECTUS



CITY OF PRAGUE

€200,000,000

3.125 per cent. Notes due 2023

The issue price of the €200,000,000 3.125 per cent. Notes due 2023 (the “Notes”) issued by the City of Prague (the “Issuer” or the “City” or the “City of Prague”) will be 99.417 per cent. of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on July 3, 2023. The Notes will bear interest from July 3, 2013 at the rate of 3.125 per cent. per annum payable annually in arrear on July 3 in each year commencing on July 3, 2014. Payments on the Notes will be made in euro without deduction for or on account of taxes imposed or levied by the Czech Republic to the extent described under “Taxation” and “Terms and Conditions of Notes – Taxation”.

This document constitutes the simplified prospectus for purposes of Chapter 2, Part III of the Luxembourg law on prospectuses for securities dated 10 July 2005, as amended, (the “Luxembourg Prospectus Act”). Application has been made for the Notes to be admitted to the official list and traded on the Regulated Market (regulated by Directive 2004/39/EC) of the Luxembourg Stock Exchange (the “LSE”). By approving this simplified prospectus, the LSE does not give any undertaking as to the economic and financial soundness of the transaction or as to the quality or solvency of the Issuer in accordance with Article 47(5) of the Luxembourg Prospectus Act.

An investment in Notes involves certain risks. For a discussion of these risks see “Risk Factors”.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “Securities Act”). The Notes are being offered outside the United States by the Joint Lead Managers (as defined herein) in accordance with Regulation S under the Securities Act (“Regulation S”), and may not be offered, sold or delivered within the United States or to U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Notes will be in bearer form and issued in denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will initially be in the form of a temporary global note (the “Temporary Global Note”), without interest coupons, which will be deposited on or around July 3, 2013 (the “Closing Date”) with a common safekeeper for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, société anonyme, Luxembourg (“Clearstream, Luxembourg”). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the “Permanent Global Note”), without interest coupons, not earlier than 40 days after the Closing Date 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. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form in the denomination of €100,000 each and integral multiples of €1,000 in excess thereof and with interest coupons attached. See “Summary of Provisions Relating to the Notes in Global Form”.

Joint Lead Managers

Československá obchodní banka, a. s.

UniCredit Bank Czech Republic, a.s.

The date of this simplified prospectus is June 28, 2013.

IMPORTANT NOTICE

This prospectus (this “Prospectus”) fulfils the requirements for a simplified prospectus pursuant to Chapter 2 of Part III of the Luxembourg Prospectus Act. It does not constitute a prospectus pursuant to Part II of the Luxembourg Prospectus Act implementing Directive 2003/71/EC, as amended, (the “Prospectus Directive”) into law of Luxembourg. Accordingly, this Prospectus does not purport to meet the format and the disclosure requirements of the Prospectus Directive and Commission Regulation (EC) No 809/2004, as amended, implementing the Prospectus Directive, and it has not been, and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Directive.

The obligations of the Issuer are not in any way guaranteed by, or otherwise backed by the credit of, the Czech Republic or any agency, ministry or political subdivision thereof. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*”). This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Prospectus or as expressly approved for such purpose by the Issuer. Any other representation or information should not be relied upon as having been authorised by the Issuer or the Joint Lead Managers.

The Joint Lead Managers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers as to the accuracy or completeness of the information contained or incorporated in this Prospectus. No Joint Lead Manager accepts any liability in relation to the information contained or incorporated by reference in this Prospectus.

Nothing contained in this Prospectus is or should be relied upon as a promise or representation of future results or events. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Joint Lead Managers to subscribe for or purchase, any Notes. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Joint Lead Managers do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Joint Lead Managers which are intended to permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States and the European Economic Area (the “EAA”) (including the United Kingdom, the Czech Republic, Luxemburg and the Republic of Italy), see “*Subscription and Sale*”.

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

Neither this Prospectus nor any other information supplied in connection with it or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with it or any Notes should purchase any Notes. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the Issuer and the Notes and its own determination of the suitability of any such investment, with particular reference to its own investment objectives, experience, financial ability to bear any losses which may result from such investment and any other factors which may be relevant to it in connection with such investment. A prospective investor who is in any doubt whatsoever as to the risk involved in investing in the Notes should consult its own independent professional advisors. Prospective purchasers of the Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Czech Republic of acquiring, holding and disposing of the Notes and receiving payments of principal, interest, and/or other amounts under the Notes.

All references in this Prospectus to *Czech crowns*, *CZK* and *Kč* refer to the lawful currency for the time being of the Czech Republic. In addition, all references to *euro*, *EUR* and *€* refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended. Several sections of this Prospectus contain translations of certain Czech crown amounts into EUR at specified rates. Unless otherwise indicated, these translations are based on the Czech National Bank rate on June 20, 2013 of CZK 25.80 per EUR 1.00. The Issuer makes no representation that the Czech crown or EUR amounts shown in this Prospectus could have been or could be converted into EUR or Czech crowns, as the case may be, at such rate or at any other rate. Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same item of information presented in different table may vary slightly, and figures shown as totals in certain tables may not be an arithmetical aggregate of the figures preceding such totals.

Some of the statements contained in this Prospectus constitute forward-looking statements. Statements that are not historical facts, including statements about the Issuer's beliefs and expectations, are forward-looking statements. These statements are based on current plans, objectives, assumptions, estimates and projections. Therefore, undue reliance should not be placed on them. Forward-looking statements speak only as of the date that they are made and the Issuer undertakes no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. The Issuer cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Certain information contained in this Prospectus was derived from various public sources, including information published by the Czech Statistical Office. Where information has been sourced from a third party the source has been identified, the information has been accurately reproduced and (as far as the Issuer is aware and is able to ascertain from information published by that third party) no facts have been omitted which could render the reproduced information inaccurate or misleading.

The registered office of the Issuer is at Mariánské náměstí 2, 110 00 Praha 1, Czech Republic and its telephone number at that address is +420 236 00 2139. Issuer's Id. No. is. 000 64 581

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

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RISK FACTORS

The Issuer believes that the following factors may affect the ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but its inability to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risks Relating to the Czech Republic

Risks relating to political developments in the Czech Republic

A change in composition of the Czech Parliament and the Czech Government and any political developments or changes in the political and budgetary policy of the Czech Republic may have an adverse effect on the overall economic and political stability of the Czech Republic and on the economic, financial and regulatory policies of the Czech Republic. The Issuer cannot give any assurance that such political developments or changes would not have an adverse effect on the Issuer's financial and budgetary position, as well as on its operations and ability to pay its debts, including the Notes. For information on current political development in the Czech Republic, please see "*Description of Issuer - Recent Events - Resignation of the Czech Prime Minister and End of Office Term of the Czech Government*".

Risks relating to legal and social developments in the Czech Republic

Unforeseeable legal and social development relating to the Czech Republic could have an adverse effect on the Issuer's financial and budgetary position or operations and or ability to pay its debts, including the Notes. In particular, changes to the degree of legal regulation or to interpretation of the legal regulations applicable to the Issuer could have an adverse effect on the Issuer's financial and budgetary position or operations and ability to pay its debts, including the Notes. The foregoing factors are beyond the Issuer's control and the Issuer is unable to assure that developments in the legal or social sphere will be favourable for the Issuer's financial and budgetary position or operations.

Risk relating to performance of Czech economy

The Issuer's income is dependent on the performance of the Czech economy. The most important source of the Issuer's income is a portion of the aggregate proceeds of taxes collected by the Czech Government (approximately 66% of the Issuer's income in 2012). For further information see "*Financial Information on Issuer - Income and Expenditures - Sources of Income*". Changes in economic, regulatory, administrative or other policies of the Czech Government, as well as economic developments in the Czech Republic (including potential changes in the Czech Republic's credit ratings) over which the Issuer has no control, could have a significant effect on the Czech economy, which in turn could have a material adverse effect on the aggregate amount of taxes collected by the Czech Government, Issuer's

operations or its budgetary and financial position and ability to pay its debts, including the Notes.

Risk relating to fluctuation of inflation or interest rates

The Issuer's operating results are affected by the inflation rate and interest rates. Major changes in inflation or interest rates could have a material adverse effect on the Issuer's operations, its budgetary and financial position and ability to pay its debts, including the Notes.

Risks Relating to the Issuer

Risks relating to political development in the City

The composition of the City Assembly (and consequently of the City Council) is dependent on elections. For further information see "*Description of Issuer - Administration and Organisation - City Assembly*". The Issuer cannot provide any assurance that the current City Assembly or any subsequent City Assembly (and consequently the current City Council or subsequent City Council) elected in the future will continue with the current economic, financial, budgetary and regulatory policies or that any changes to such policies would not have a material adverse effect on the Issuer's financial or budgetary position, operations or ability to pay its debts, including the Notes.

Risks relating to changes in Czech taxation system

The Czech taxation system and regulation is subject to on-going changes. Such changes may lead to, amongst others, decrease in tax rates, extension of existing tax treatments, decrease in the scope of taxation or changes in parameters of tax sharing among Czech municipalities and regions (for further information see "*Financial Information on Issuer - Income and Expenditures - Sources of Income – Income from Taxes*"). The introduction of any such provisions may affect the Issuer's overall tax income. Changes to tax law, in particular to the Czech tax sharing arrangement, may have a significant adverse effect on the Issuer's income and on its financial and budgetary position or operations and ability to pay its debts, including the Notes. The Issuer cannot provide any assurance that its tax income will not decrease or that any additional tax exposure of the Issuer will not affect its operations and financial and budgetary position or ability to pay its debts, including the Notes.

Limited expenditures flexibility

Approximately 70% in 2011 and 71% in 2012 of the Issuer's aggregate expenditures were current expenditures - *i.e.*, non-capital expenditures (see "*Financial Information on Issuer - Income and Expenditures - Expenditures*"). These expenditures are crucial for the essential functioning of the City of Prague and the Issuer has a limited ability to decrease such current expenditures. In addition, the Issuer has contracted large investment projects which will require a significant amount of capital expenditures (see "*Financial Information on Issuer - Income and Expenditures – Expenditures – Capital Expenditures*"). The Issuer cannot provide any assurance that its aggregate expenditures will not increase faster than its aggregate income. A greater allocation of Issuer's income to the expenditures could reduce the amounts available for debt service, which could have a material adverse effect on the Issuer's public budgetary and financial position and its ability to pay its debt obligations, including the Notes.

Risk relating to 2013 budget

The Issuer's budget for 2013 is based on estimates and assumptions regarding the future economic performance of the Czech Republic and the Issuer, which are subject to uncertainties, many of which are beyond the control of the Issuer. These estimates and assumptions may be incomplete or inaccurate as of the date of this Prospectus and unanticipated events and circumstances may occur which may alter the assumptions used for such estimates. Accordingly, the Issuer can provide no assurance that its budget for 2013 will be achieved. If any of the estimates and assumptions contained in the Issuer's yearly budget for 2013 proves to be incorrect, the budgeted income and expenditures may differ materially and adversely from actual results.

Risks relating to limited sources of financing

The Issuer's income may be insufficient to meet the Issuer's debt service obligations, including in respect of the Notes, and capital expenditures commitments. The Issuer cannot provide any assurance that foreign investors and lenders will be willing to lend money to the Issuer in the future, or that the Issuer will be able to access the international capital markets. The Issuer also cannot provide any assurance that any local sources of finance will remain available to it. Any loss or limitation of these sources of finance or inability of the Issuer to attract or retain foreign investment in the future could adversely affect the economic growth, financial and budgetary position and/or ability of the Issuer to pay its debt obligations, including the Notes.

Under Czech Act No. 190/2004 Coll., on bonds, as amended (the "**Bonds Act**"), the Notes may not be refinanced by an issue of bonds (*in Czech, dluhopisy*) or similar foreign debt securities. Fewer refinancing options will be available to the Issuer on the maturity of the Notes and there can be no assurance that suitable refinancing will be available if required.

Under Czech Act No. 131/2000 Coll., on the capital city of Prague, as amended, any issue of bonds, and other debt securities or conclusion of a loan by the Issuer is subject to an approval by the City Assembly and the City Council. There is a risk that the City Assembly and the City Council, as political bodies, may not approve any financing of the Issuer when required.

Risk relating to the construction of the north-western segment of the Prague Ring Road (the Blanka Tunnel)

The net proceeds of the issue of the Notes will be used by the Issuer for the financing of a part of capital expenditures to be spent on the development and construction of the north-western segment of the Prague Ring Road (the Blanka Tunnel), see "*Use of Proceeds*". The majority of work on the project has been completed; however, the project and its construction have been subject to significant changes, the realisation of which is subject to certain restrictions and conditions provided in Czech Act No. 137/2006 Coll., on public procurement, as amended (the "**Czech Public Procurement Act**"). Therefore, the Issuer is currently facing a significant risk that: (i) the construction of the north-western segment of the Prague Ring Road (the Blanka Tunnel) may be suspended or delayed; (ii) the construction costs may be significantly increased; and/or (iii) contractors could claim payment of damages and/or cost reimbursement against the Issuer if the project is suspended or delayed. Furthermore, the Issuer is facing a risk that it could be significantly fined if the Czech Office for the Protection of Competition determines that the Issuer is in breach of provisions of the Czech Public Procurement Act.

Risk relating to the upgrade of central waste-water treatment plant at Císařský Island

Under European and Czech law, the City was obliged to comply with certain waste water emission limits by 2010. The Czech Environmental Inspectorate (the “CEI”), the competent Czech governmental authority, allowed the City to release waste water in amounts exceeding emission limits, provided that City upgrades the existing waste water treatment plant at Císařský Island in accordance with the timetable approved by the CEI. Under such timetable, the upgrade of the existing waste water treatment plant shall have been commenced in December 2012 and shall be completed in 2017. Required regulatory permits were obtained and the contract with suppliers for upgrade of the waste water treatment plant has been signed; however, only particular works on the upgrade of the existing waste water treatment plant have been realised. Therefore, the City is currently facing a significant risk that (i) the City could be significantly fined by the CEI if it identifies that the City does not fulfil the approved timeline for the upgrade and is therefore in a breach of the emission limits after the end of June 2013 and/or (ii) contractors could potentially claim payment of alleged damages and/or cost reimbursement against the City if the delay of the project continues or the project is not commenced. For further information on this project please see “*Financial Information on Issuer - - Income and Expenditures – Expenditures – Capital Expenditures - Central Waste-Water Treatment Plant at Císařský Island*”.

Risk relating to the realisation of Issuer’s investment projects

The Issuer is committed, or plans, to realise large investment projects relating primarily to transportation. For further information on the strategic investment projects realised or planned to be realised by the Issuer see “*Financial Information on Issuer - Income and Expenditures – Expenditures – Capital Expenditures*”. The Issuer is facing a risk that such investment projects may be suspended or delayed and that the costs of these projects may significantly increase. In addition, certain projects are co-financed by the European Union (the “EU”) and, therefore, the Issuer is also facing a risk that the EU will not provide the funds or will request repayment of the already expended funds. This could adversely affect the Issuer’s financial and budgetary position and its ability to pay its debt obligations, including the Notes.

Risks relating to arbitrations, court and other proceedings

The Issuer is subject to numerous civil and administrative proceedings (see “*Description of Issuer - Litigation*”). The Issuer believes that the liabilities relating to such proceedings would not have, individually or in the aggregate, a significant adverse effect on its budgetary or financial position or on the ability of the Issuer to perform its obligations under the Notes. However, the future proceedings against the Issuer could have a material adverse effect on its financial and budgetary position and on the ability to perform its obligations under the Notes.

Risk relating to the Kongresové centrum Praha, a.s.

Kongresové centrum Praha, a.s. (“KCP”) is 100% subsidiary of the Issuer and owns the major congress centre in the City of Prague. KCP is currently facing economic difficulties. The City granted to KCP the CZK 10 million (EUR 388 thousand) loan maturing no later than June 30, 2014 and the EUR 3,151,500 loan maturing no later than June 30, 2014. The City also guarantees the CZK 700 million (EUR 27 million) bank loan provided to KCP by Komerční banka, a.s. There is a significant risk that, due to the on-going economic difficulties, KCP would not be able to repay loans provided to it by the Issuer or the bank loan guaranteed by the Issuer. This could adversely affect the Issuer’s financial and budgetary

position. For further information, please see “*Description of Issuer – Subsidiaries and Organisation - Kongresové centrum Praha, a.s.*”.

Risk relating to agreements that govern Issuer’s long term debt

The agreements that govern the Issuer’s long term debt contain certain restrictive covenants. The Issuer’s failure to comply with any of these covenants could constitute an event of default, which could result in the immediate or accelerated repayment of its debt or could lead to cross-default under its other credit agreements, which could in turn have a material adverse effect on its operations and budgetary and financial position or ability to pay its debts, including the Notes.

As of the date of this Prospectus, the Issuer’s credit ratings are A+/A-1 (positive outlook) by Standard & Poor’s Credit Market Services Europe Limited and A1 (stable outlook) by Moody’s Investors Service Ltd. Standard & Poor’s Credit Market Services Europe Limited and Moody’s Investors Service Ltd are both established in the European Union, domiciled in the United Kingdom and are included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended (the “**CRA Regulation**”), which is available on ESMA website (<http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation (last updated June 3, 2013). These ratings reflect each rating agency’s opinion of the Issuer’s financial strength and ability to meet its debt obligations as they become due. The Issuer currently does not expect a lowering of its ratings. However, a lowering of the Issuer’s credit rating may trigger its obligation to prepay certain long-term debts prior to their scheduled repayment date unless the Issuer provides additional security acceptable to borrowers. Such prepayment could have a material adverse effect on the Issuer’s operations and financial and budgetary position or ability to pay its debts, including the Notes.

Risks relating to natural disasters and similar causes

The Issuer, its assets and infrastructure of the City of Prague (in particular, public transport infrastructure) maintained by the Issuer could be subject to physical damage due to natural disasters (such as storms or floods), sabotage, terrorism, computer viruses and other causes.

At the beginning of June 2013, the City was affected by a flood. For further information, please see “*Description of Issuer – Recent Events*”. Currently, it is not possible to determine the amount of damage and reconstruction costs incurred or to be incurred in connection with the 2013 flood. Damage caused by the 2013 flood will increase the City’s budgetary expenditures in the year 2013 and following years.

The Issuer cannot give any assurance that above described accidents will not occur or that the preventative measures taken by the Issuer will be fully effective in all cases, particularly in relation to external events that are not within the Issuer’s control, such as floods and other natural disasters.

Insolvency risk

Czech law does not provide for any insolvency proceedings in the case of an insolvency of the Issuer as a Czech municipality and a Czech region. If the Issuer becomes insolvent, there is a risk that the Noteholders will not be able to fully enforce and recover their rights under the Notes.

Risk relating to the absence of recourse against the Czech Republic

The obligations of the Issuer under the Notes are not in any way guaranteed by, or otherwise backed by the Czech Republic or any agency, ministry or political subdivision of the Czech Republic. Therefore, in the event of a default under the Notes, the Noteholders will have no recourse against the Czech Republic or any agency, ministry or political subdivision of the Czech Republic.

Risk relating to waiver of sovereign immunity

To the fullest extent permitted by any applicable law, the Issuer has waived immunity for itself or its assets or revenues from suit, execution, attachment or other legal process. However, a claimant may not be able to enforce a court judgment against specific assets of the Issuer, as the laws of the Czech Republic exempt certain assets from execution proceedings.

Risk Relating to the Notes

Right to receive payments on the Notes may be subordinated to other liabilities of the Issuer.

The negative pledge covenant in the Notes permits the Issuer to incur additional indebtedness secured by a mortgage, charge, pledge, lien or other security interest (please see “*Terms and Conditions of the Notes - Negative Pledge*”). Therefore, there is a risk that the Notes will be subordinated to future and existing indebtedness of the Issuer.

The terms of the Notes do not require the Issuer to achieve or maintain any minimum financial results relating to its financial position or results of operations. The Issuer’s ability to incur additional debt, secure existing or future debt or take a number of other actions that are not limited by the terms of the Notes could have the effect of diminishing its ability to make payments on the Notes when due.

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where its currency is not euro;
- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and

- (v) is able (either alone or with the help of a financial advisor) to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

There is no active trading market for the Notes. An investor's ability to sell the Notes may be limited.

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending, amongst other things, upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. As a result, an active trading market for the Notes may not develop or, if developed, may not continue, and investors may be unable to sell their Notes. If a market does develop, it may not be liquid. Individual investors, including the Joint Lead Managers, may purchase significant portions of the Notes, and may choose to hold such Notes until maturity. Therefore, a market price for such Notes may not be easily discernible, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

Although application has been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market, there is no assurance that such application will be accepted, that the Notes will not be delisted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes. The Issuer cannot provide any assurance you as to the prices at which an investor would be able to sell its Notes.

Further, it is possible that the market for the Notes will be subject to disruptions. Any such disruption may have a negative effect on a holder of the Notes, regardless of the Issuer's prospects and financial performance. As a result, the Issuer cannot give any assurance that there will be an active trading market for the Notes. If no active trading market develops, investors may not be able to resell their holding of the Notes at a fair value, if at all. In addition, the terms of the Notes allow the Issuer to issue additional Notes in the future which could adversely impact the liquidity of the Notes.

The Notes may be redeemed prior to maturity.

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any 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 thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer.

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global

Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holder of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes or to act upon the Issuer's solicitations or consents or requests for waivers or other actions from holders of the Notes that the Issuer may choose to make in the future. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. The Issuer cannot assure you that procedures implemented for the granting of such proxies will be sufficient to enable holders of the Notes to vote or act on any such solicitations or requests for actions on a timely basis. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against the Issuer in the event of a default under the Notes but will have to rely upon their rights under the Deed of Covenant.

Minimum Denomination

As the Notes have a denomination consisting of the minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of EUR 100,000 (or its equivalent) that are not integral multiples of EUR 100,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination.

The Notes bear interest at a fixed rate and changes in market interest rate may affect the value of the Notes.

The Notes will bear interest at a fixed rate, which involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes. Investment laws and regulations may restrict certain investments.

The investment activities of certain investors are subject to investment laws and regulations, or review and regulation by certain authorities.

Investors should consult their legal advisors to determine whether and to what extent (i) Notes are legal investments for them, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to their purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the treatment of Notes under any applicable risk based capital or similar rules.

Certain modifications to the Notes may be made without your consent.

The Agency Agreements contain provisions for calling meetings of holders of the Notes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of the Notes including holders of the Notes who did not attend

and vote at the relevant meeting and holders of the Notes who voted in a manner contrary to the majority. In particular, under the terms of the Agency Agreements, an Extraordinary Resolution (as defined in the Agency Agreements) may be passed by the holders of only three quarters of the Notes voted at a meeting to reduce or cancel amounts due under the Notes, including principal.

The value of the Notes could be adversely affected by a change in English law or administrative practice.

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of the Notes.

Credit Rating

The Notes have been assigned a rating of A1 by Moody's Investor Services Limited Moody's and A+ by Standard & Poor's Credit Market Services Europe Limited. Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd are both established in the European Union, domiciled in the United Kingdom and are included in the list of credit rating agencies registered in accordance with the CRA Regulation, which is available on ESMA website (<http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation (last updated June 3, 2013). A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Actual or anticipated changes or downgrades in the Issuer's credit ratings, including any announcement that the Issuer's ratings are under further review for a downgrade, could affect the market value of the Notes and increase the Issuer's borrowing costs.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up.

Withholding under the EU Savings Directive

Noteholders may be subject to the EU Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"). Under the EU Savings Directive, member states are required to provide to the tax authorities of another member state details of payments of interest within the meaning of the EU Savings Directive or other similar income paid by a paying agent within its jurisdiction (within the meaning of the EU Savings Directive) to an individual resident or certain types of entities defined in article 4.2 of the EU Savings Directive established in that other member state. However, for a transitional period, Luxembourg and Austria are instead permitted (unless during that period they elect otherwise) to apply a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and

territories of certain member states have adopted similar measures (either provision of information or transitional withholding).

On 15 September 2008, the European Commission issued a report to the Council of the European Union on the operation of the Directive which included the Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

If a payment with respect to any note were to be made or collected through a Member State that has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, none of the Issuer or any paying agent nor any other person would be obliged to pay additional amounts with respect to any bond as a result of the imposition of such withholding tax.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have been previously published or are published simultaneously with this Prospectus and have been filed with the LSE shall be incorporated in, and form part of, this Prospectus:

The following documents comprising the auditor's report and annual financial statements of the Issuer for the two financial years ended December 31, 2011 and December 31, 2012:

<u>Financial Statements of the Issuer for the Year Ended December 31, 2011</u>	<u>Page</u>
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Any other information not listed above but contained in such documents, is incorporated by reference for information purposes only.

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the Issuer and from the specified offices of the Paying Agents for the time being in London and Luxembourg. The documents incorporated by reference will also be available for viewing on the website of the LSE (www.bourse.lu).

TERMS AND CONDITIONS OF NOTES

The EUR 200,000,000 3.125 per cent. Notes due July 3, 2023 (the “**Notes**”, which expression includes any further notes issued pursuant to Condition 13 (*Further issues*) and forming a single series therewith) of the City of Prague (the “**Issuer**”) are constituted by, and subject to, and have the benefit of a deed of covenant dated July 3, 2013 and made by the Issuer (such deed of covenant as amended and/or supplemented and/or restated from time to time, the “**Deed of Covenant**”) and the subject of a fiscal agency agreement dated July 3, 2013 (such fiscal agency agreement as amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) between the Issuer, The Bank of New York Mellon, London Branch as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). Certain provisions of these Conditions are summaries of the Agency Agreement and subject to its detailed provisions. The holders of the Notes (the “**Noteholders**”) and the holders of the related interest coupons (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

In these Conditions, “**person**” means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality.

Words and expressions defined in the Agency Agreement shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated.

References to “**Conditions**”, “**paragraphs**” and “**sub-paragraphs**” are, unless the context otherwise requires, to the numbered Conditions, paragraphs and sub-paragraphs of these terms and conditions.

1. **Form, Denomination and Title**

The Notes are serially numbered and in bearer form in denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof with Coupons attached at the time of issue. 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 the Notes under the Contracts (Rights of Third Parties) Act 1999.

2. **Status**

The Notes constitute direct, general, unsecured 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 and subject always to Condition 3.

3. **Negative Pledge**

So long as any Note remains outstanding (as defined in the Agency Agreement), the Issuer shall not grant or permit to subsist any Security Interest (other than any Permitted Security Interest, *provided that*, at any one time, the aggregate principal amount of Relevant Indebtedness so secured pursuant to paragraphs (a) through (h) below does not exceed 15 per cent. of the Aggregate Assets) 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, (i) procure that its obligations under the Notes are secured equally and rateably, or (ii) such other security or other arrangement is provided as shall be approved by an Extraordinary Resolution of Noteholders where:

“**Aggregate Assets**” means the total of all assets appearing on the audited aggregate annual balance sheet of the Issuer and its City Districts for the accounting year preceding the year in which the Security Interest is granted;

“**Extraordinary Resolution**” has the meaning given in the Agency Agreement;

“**Permitted Security Interest**” means

- (a) any Security Interest arising by operation of law or under resolution of any court, governmental authority, tax levies or duty authority, arbitrator or arbitration tribunal; or
- (b) any Security Interest existing on any property at the time of its acquisition; or
- (c) any Security Interest upon any property to secure Relevant Indebtedness incurred for the purpose of financing the acquisition of such property (or property which forms part of a class of assets of a similar nature where the Security Interest is by reference to the constituents of such class from time to time); or
- (d) any netting or set-off arrangement entered into by the Issuer in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances; or
- (e) any payment or close out netting or set-off arrangement pursuant to any hedging transaction entered into by the Issuer for the purpose of (i) hedging any risk to which the Issuer is exposed in its ordinary course of trading or (ii) its interest rate or currency management operations which are carried out in the ordinary course of business and for non-speculative purposes only, including, without limitation, any currency and interest rate risk hedging arrangements entered into in connection with the Notes; or

- (f) any Security Interest granted by the Issuer in connection with the financing of Dopravní podnik hl. m. Prahy, akciová společnost or its successor operating the public transport in the Issuer; or
- (g) any Security Interest granted after the Issue Date and securing Relevant Indebtedness the principal amount of which (when aggregated with the principal amount of any other Relevant Indebtedness which has the benefit of the Security Interest given by the Issuer other than any permitted under paragraphs (a) through (f) above) does not exceed 10 per cent. of the Aggregate Assets (or its equivalent in another currency or currencies); or
- (h) any renewal or extension of any Security Interest described in paragraphs (a) through (g) above, provided that the principal amount of the Relevant Indebtedness secured thereby is not increased;

“**Relevant Indebtedness**” means any indebtedness which is in the form of or represented by any notes, bonds or other securities 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 Czech crowns and/or more than 50 per cent. of which is initially placed outside the Czech Republic; and

“**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.

4. **Interest**

The Notes shall bear interest from and including July 3, 2013 (the “**Issue Date**”), at the fixed rate of 3.125 per cent. per annum, (the “**Rate of Interest**”) payable in arrear on July 3 in each year (each, an “**Interest Payment Date**”), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) 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 (b) the day which is seven (7) days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh (7th) day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be EUR 31.250 in respect of each Calculation Amount. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest euro cent (half a euro cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Note divided by the Calculation Amount, where:

“**Calculation Amount**” means EUR 1,000;

“**Day Count Fraction**” means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

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

5. **Redemption and Purchase**

- (a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on July 3, 2023, subject as provided in Condition 6 (*Payments*).
- (b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than thirty (30) nor more than sixty (60) days’ notice to the Fiscal Agent and the Noteholders (which notice shall be irrevocable), at a price equal to 100 per cent. of their principal amount, together with interest accrued and unpaid to the date fixed for redemption, if:
 - (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws, treaties, rulings 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, treaties, rulings or regulations (including, without limitation, a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after July 3, 2013; and
 - (ii) 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 ninety (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.

Prior to the publication of any notice of redemption pursuant to this Condition 5(b), the Issuer shall deliver to the Fiscal Agent:

- (A) a certificate signed by the Mayor (*in Czech, primátor*) or any other authorised signatory or signatories 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
- (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(b).

- (c) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (b) (*Redemption for tax reasons*) above.
- (d) *Purchase*: The Issuer may at any time purchase, or procure others to purchase for its account, Notes in the open market or otherwise and at any price, *provided that* all unmatured Coupons are purchased therewith. The Notes so purchased may be held or resold (provided that such resale is only made in compliance with applicable law) or surrendered for cancellation at the option of the Issuer or otherwise, as the case may be in compliance with paragraph (e) (*Cancellation*) of this Condition 5.
- (e) *Cancellation*: All Notes redeemed by the Issuer and any unmatured Coupons attached to or surrendered with them shall be cancelled. All Notes so cancelled and any Notes purchased and cancelled in accordance with paragraph (d) (*Purchase*) may not be reissued or resold.

6. **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 transfer or credit to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET 2 System.
- (b) *Interest*: Payments of interest shall, subject to paragraph (g) (*Payments other than in respect of matured Coupons*) 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) (*Principal*) of this Condition 6.
- (c) *Interpretation*: In these Conditions:

“**TARGET 2**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system 2 which utilises a single shared platform and which was launched on 19 November 2007; and

“**TARGET 2 System**” means the TARGET 2 system.

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

- (e) *Deduction for unmatured Coupons:* If a Note is presented without all unmatured Coupons relating thereto, then:
- (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) (Principal) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void coupons.

- (f) *Payments on Business Days:* If the due date for payment of any amount in respect of any Note or Coupon is not a Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

In these Conditions, “**Business Day**” means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a Euro account as referred to above, on which the TARGET 2 System is open.

- (g) *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.
- (h) *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.

7. **Taxation**

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 thereof 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:

- (a) in the Czech Republic; or
- (b) 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 Czech Republic other than the mere holding of the Note or Coupon; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive; or
- (d) 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 European Union; or
- (e) more than thirty (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 thirty (30) days.

In these Conditions, “**Relevant Date**” means whichever is the later of (1) the date on which the payment in question first becomes due or (2) if the full amount payable has not been received in a city in which banks have access to the TARGET 2 System by the Fiscal 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.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*).

8. **Events of Default**

If any of the following events occurs and is continuing:

- (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 (7) days in the case of principal and fifteen (15) 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 and (except in any case where the failure is incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of forty five (45) days following the service on the Issuer of notice requiring the same to be remedied; or
- (c) *Cross-default of Issuer*:
 - (i) any loan or other indebtedness for borrowed money (other than the Notes and any indebtedness owed to trade creditors not evidenced by a note, bond, debenture or similar securities) in excess of CZK 1,000,000,000 (or its equivalent in any other currency) of the Issuer (“**Default Indebtedness**”) becomes due and payable prior to the stated maturity thereof following a default and otherwise than at the option of the Issuer; or
 - (ii) the Issuer fails to make repayment of any Default Indebtedness at the maturity thereof or at the expiration of any grace period applicable thereto; or
 - (iii) the Issuer fails to pay any amount payable by it under any guarantee of, or indemnity in respect of, any Default Indebtedness when due or at the expiration of any grace period applicable thereto

unless, in each case provided in sub-paragraphs (i) through (iii) above, the relevant payment is being contested in good faith by appropriate legal proceedings by or on behalf of the Issuer or a City District of the Issuer; or

- (d) *Security enforced*:
 - (i) a secured party takes possession of the whole or any part of the undertaking, assets and revenues of the Issuer, or
 - (ii) a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer,

in respect, in each case provided in sub-paragraphs (i) and (ii) above, of a claim

(A) other than a frivolous or vexatious claim contested in good faith by appropriate legal proceedings by or on behalf of the Issuer or a City District of the Issuer; or

(B) the amount of which exceeds 2 per cent. of the Aggregate Assets (or its equivalent in another currency or currencies); for the purposes of this Condition 8(d) “**Aggregate Assets**” means the total of all assets appearing on the audited aggregate annual balance sheet of the Issuer and its City Districts for the accounting year preceding the year in which any event described in Condition 8(d) (i) and (ii) occurs;

(e) *Insolvency, etc:* the Issuer generally suspends payment of, or admits its inability to pay, its debts as they fall due, or declares a general moratorium on or in respect of its indebtedness, or enters into any composition with creditors or anything analogous to the foregoing shall occur; or

(f) *Governmental consents:* any governmental and/or any other type of consent required for the validity, enforceability or performance of the Notes ceases for any reason to be in full force and effect,

then any Noteholder (or Noteholders as the case may be) holding not less than 10 per cent. of the aggregate principal amount of the outstanding Notes may, by written notice addressed to the Issuer and delivered to the Issuer and to the Specified Office of the Fiscal Agent, declare the Notes held by it (or them as the case may be) immediately due and payable, whereupon it shall become immediately due and payable at its principal amount together with accrued and unpaid interest as of the date of the repayment (if any) without further action or formality.

9. **Prescription**

Claims for principal shall become void unless the relevant Notes are presented for payment within ten (10) years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five (5) years of the appropriate Relevant Date.

10. **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 Fiscal Agent and the Paying Agent having its Specified Office in London or Luxembourg, subject to all applicable laws and stock exchange 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. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. **Paying Agents**

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 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 Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent and additional or successor paying agents; *provided, however, that* the Issuer shall at all times maintain (a) a fiscal agent, (b) a paying agent in London or Luxembourg and (c), a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC.

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

Initial Paying Agent	Initial Specified Office
The Bank of New York Mellon, London Branch	One Canada Square London E14 5AL
The Bank of New York Mellon (Luxembourg) S.A.	Vertigo Building – Polaris 2-4 rue Eugène Ruppert L-2453 Luxembourg

12. Meetings of Noteholders; Modification

- (a) *Meetings of Noteholders:* The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by it 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* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a “**Reserved Matter**”)) 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 Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

13. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, 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.

14. **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's regulated market, the Luxembourg Stock Exchange's website, www.bourse.lu and/or a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, 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. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

15. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**First Currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**Second Currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer and to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the First Currency into the Second Currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the First Currency with the Second Currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

16. **Governing Law and Jurisdiction**

- (a) *Governing law:* The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.
- (b) *English courts:* The courts of England have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes).
- (c) *Appropriate forum:* The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- (d) *Rights of the Noteholders to take proceedings outside England:* Condition 16(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 16 (*Governing law and jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.
- (e) *Service of Process:* The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, or to such other person with an address in England or Wales and/or at such other address in England or Wales as the Issuer may specify by notice in writing to the Noteholders. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England.
- (f) *Consent to enforcement etc.:* To the extent permitted by applicable law, the Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.
- (g) *Waiver of immunity:* To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees, to the extent permitted by applicable law, not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common safekeeper for Euroclear and Clearstream, Luxembourg.

The Notes will be issued in new global note (“NGN”) form. On June 13, 2006 the European Central Bank (the “ECB”) announced that Notes in NGN form are in compliance with the “Standards for the use of EU securities settlement systems in ESCB credit operations” of the central banking system for the euro (the “Eurosystem”), **provided that** certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of June 30, 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

The Notes are intended to be held in a manner which would allow Eurosystem eligibility - that is, in a manner which would allow the Notes to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date 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.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form (“**Definitive Notes**”) in the denomination of EUR 100,000 each and integral multiples of EUR 1,000 in excess thereof at the request of the bearer of the Permanent Global Note if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business, (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs and is continuing or (c) the Issuer or a Paying Agent is, or will prior to the next interest payment date be, obliged to withhold tax on payments of principal or interest under the Notes and such payment of tax would not be payable if the Notes were represented in Definitive Form and such adverse tax consequences cannot be avoided by appointment of an Paying Agent in another jurisdiction.

So long as the Notes are represented by a Temporary Global Note or a Permanent Global Note and the relevant clearing system(s) so permit, the Notes will be tradable only in the minimum authorised denomination of EUR 100,000 and higher integral multiples of EUR 1,000, notwithstanding that no Definitive Notes will be issued with a denomination above EUR 199,000.

For so long as any of the Notes is represented by a Temporary Global Note or a Permanent Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest

error) shall be treated by the Issuer and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of a Temporary Global Note or a Permanent Global Note and the expressions Noteholder and holder of Notes and related expressions shall be construed accordingly.

Notes which are represented by a Temporary Global Note or a Permanent Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

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 attached, 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 to or to the order of the Fiscal Agent not later than 15 days before the relevant exchange is due to take place.

If:

- (a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the fifteenth (15th) day before the relevant exchange of the Permanent Global Note for Definitive Notes is due to take place; or
- (b) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such fifteenth (15th) day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

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

Payments: All payments in respect of the Temporary Global Note and the Permanent 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 Temporary Global Note or (as the case may

be) the Permanent Global Note to or to the order 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 Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

The holder of a Temporary Global Note or a Permanent Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Temporary Global Note or Permanent Global Note (as the case may be) and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Temporary Global Note or Permanent Global Note (as the case may be) must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Payments on business days: In the case of all payments made in respect of the Temporary Global Note and the Permanent Global Note "**business day**" means any day on which the TARGET 2 System is open.

Notices: Notwithstanding Condition 14 (*Notices*), while all the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 14 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg, except that, for so long as such Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, such notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*).

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to EUR 198,774,000 after deduction of the combined management and underwriting commission and selling concession incurred in connection with the issue of the Notes, will be used by the Issuer for the financing of capital expenditures relating to development and construction of the north-western segment of the Prague Ring Road (the Blanka Tunnel) which is one of seven strategic investment projects of the Issuer (see “*Financial Information on Issuer - Income and Expenditures – Capital Expenditures - north-western segment of the Prague Ring Road - set of ring road structures known as the “Blanka Tunnel”*”). In connection with the issue of the Notes, the Issuer is considering entering into currency and interest rate risk hedging arrangements.

DESCRIPTION OF ISSUER

Introduction

The City is the largest city (in terms of both area and population) in the Czech Republic. The area of the City is 496 sq. kilometres and the population is almost 1.2 million. The City is located in the western part of the Czech Republic on both banks of the Vltava River.

Under Czech law, the City is the capital city of the Czech Republic; it is a municipality (*in Czech, obec*), a regional authority (*in Czech, kraj*) and a public law entity (*in Czech, veřejnoprávní korporace*) (see “*Administration and Organisation*”). The legal status of the City as the capital city of the Czech Republic, a municipality, a regional authority and a public law entity is governed by Czech Constitutional Act No. 1/1993 Coll., the Constitution of the Czech Republic, as amended (the “**Constitution**”), Czech Constitutional Act No. 347/1997 Coll., on regional authorities, as amended (the “**Regional Authorities Act**”), and Czech Act No. 131/2000 Coll., on the capital city of Prague, as amended (the “**City Act**”).

The first record of the City is from the ninth century. In subsequent centuries, the City became the political, administrative, economic and cultural centre of the Czech state. In the 14th century, the City became the seat of the Emperor of the Holy Roman Empire as well as a cultural and political centre of Europe. From the 16th century until 1918, the City, as the capital of the Czech Kingdom, was an integral part of the Habsburg Austrian Empire and later the Habsburg Austro-Hungarian Empire. After World War I, the City became the capital of the common state of Czechs and Slovaks, Czechoslovakia, which, with the exception of World War II, existed until December 31, 1992. The Czech Republic was established on January 1, 1993 by the splitting of Czechoslovakia into the Czech Republic, with the City becoming its capital city, and the Slovak Republic. Due to its historical role and geographical position, the City is traditionally both the national and regional centre of Czech politics, administration, economy, finance, culture, education and international affairs. Since 1992, the historical centre of the City has been included on the UNESCO World Heritage List.

The City represents a significant proportion of the economy of the Czech Republic; its economic output is approximately a quarter of the national GDP of the Czech Republic (see “*Description of Issuer’s Economy*”). All major financial institutions and other foreign and domestic commercial entities including subsidiaries of multinational companies have established their offices in the City. These offices often play the role of the Central and Eastern European headquarters of the companies concerned. Direct flight connections to many major European, Asian and African cities, as well as recent investments into infrastructure and a dense network of modern office buildings, have increased foreign investments and may facilitate the further economic development of its current residents.

The City is traditionally the seat of almost all main governmental authorities of the Czech Republic, including both chambers of the Czech Parliament (*in Czech, Parlament České republiky*), the Czech Government (*in Czech, Vláda České republiky*), the President of the Czech Republic (*in Czech, Prezident České republiky*), and the Czech National Bank (*in Czech, Česká národní banka*). The Prague Stock Exchange is also based in the City. Since 2012, the City has been the official seat of the European GNSS Agency responsible for the European Union’s GALILEO and EGNOS satellite navigation programs. Being the headquarters of the Academy of Sciences of the Czech Republic as well as home to more than 30 universities and approximately 150 thousand students, the City is the national centre for the sciences and education.

Rating

City's credit ratings are A+/A-1 (positive outlook) by Standard & Poor's Credit Market Services Europe Limited and A1 (stable outlook) by Moody's Investors Service Ltd. Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd are both established in the European Union, domiciled in the United Kingdom and are included in the list of credit rating agencies registered in accordance with the CRA Regulation, which is available on the ESMA website (<http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) (last updated June 3, 2013).

City Demographic Data

According to data published by the Czech Statistical Office, the City had as at December 31, 2012 a population of 1.267 million, representing approximately 12% of the total population of the Czech Republic.

The following table sets out selected demographic data on the City as at December 31, 2011 and 2012:

	As at December 31	
	2011	2012
	(thousands)	
Population, total	1,242	1,267
Male.....	603	605
Female.....	639	641
Foreigners (except persons with asylum).....	161	N/A
Population under working age (0-14).....	165	170
Population of working age (15-64).....	863	856
Population over working age (65+).....	214	220
Population economically active.....	674.8	N/A

Source: Czech Statistical Office

According to data as at December 31, 2011 (excluding non-Czechs with valid asylum), approximately 87% of the City's population is Czech and other significantly presented nationalities are Ukrainians (approximately 4% of the population), Slovaks (approximately 1.8% of the population), Russians (approximately 1.6% of the population) and Vietnamese (approximately 0.9% of the population).

The general unemployment rate in the City is consistently the lowest in the country. More than 30% of employees have a university degree. The general unemployment rate in the City in the last three month of 2012 was 3.3% comparing to 3.6% in 2011 and 3.8% in 2010. The general unemployment rate in the Czech Republic was 7% in 2012 comparing to 6.7% in 2011 and 7.3% in 2010.

The following table sets out a comparison of selected demographic data on the City and the cities of Brno and Ostrava, which are the second and third largest cities in the Czech Republic:

	2011		
	Prague	Brno	Ostrava
	(thousands)		
Population, total	1,242	379	300
Male.....	603	183	145
Female.....	639	196	155
Population under working age (0-14).....	165	52	42
Population of working age (15-64).....	863	257	208
Population over working age (65+).....	214	70	50
Population increase.....	+7.6	-0.9	-2.3

Source: Czech Statistical Office

The following table sets out a comparison of selected demographic data for certain Central European capital cities

	As at December 31, 2010				
	Prague	Bratislava	Warsaw	Budapest	Vienna
Population (thousands)	1,257	433	1,700	1,734	1,714
Area in sq. kilometres.....	496	368	517	525	415
Population per sq. kilometre (thousands).....	2,534	1,177	3,287	3,301	4,132
Average age.....	41.6	41.0	41.7	42.3	40.6
Population increase (thousands).....	8.1	1.7	5.9	12.1	15.7

Source: Czech Statistical Office

All information in this “City Demographic Data” section is sourced from the Czech Statistical Office.

Administration and Organisation

General

Under the Constitution, the Regional Authorities Act and the City Act, the City (i) has the legal status of a municipality, a regional authority and a public law entity, (ii) owns its property and (iii) is able to enter into contracts in its own name and on its own account as a separate and independent legal entity.

Major Activities

The City’s main responsibilities include:

- (a) administration and management of its own property;
- (b) support of economic development in the City;
- (c) urban development and city planning;

- (d) implementation of state regulations and administration;
- (e) social welfare and culture;
- (f) housing policy;
- (g) local health care;
- (h) public transport;
- (i) transport, communication and information technology infrastructures;
- (j) local education policy; and
- (k) security.

The City is vested with two types of powers to perform its main responsibilities:

- (a) *Autonomous powers (in Czech, samostatná působnost)*

Autonomous powers comprise exercising of the powers conferred upon the City directly by law and regulations in connection with the administration of its own affairs and the affairs of its citizens (including, without limitation, administration of its own property, provision of public services, concluding loans, issue of bonds or notes and general development of the City).

- (b) *Delegated powers (in Czech, přenesená působnost)*

Delegated powers comprise exercising of governmental administrative functions on behalf of the Czech Republic.

When exercising its autonomous and delegated powers, the City may adopt local legislative acts.

Relationship between the Czech Republic and the City

When exercising its autonomous powers, the City is regulated only by laws and other legal regulations adopted on the basis of such laws by the relevant central governmental authorities. The governmental authorities may interfere with the autonomous powers of the City only for the purpose of the protection of law and to the extent permitted by law. When exercising its delegated powers, the City is also subject to various resolutions and directives from the relevant governmental authorities.

In the event of any unlawful interference on the part of the Czech Republic or its governmental authorities with the City's autonomous powers, the City may seek the revocation or prevention of such intervention before the Czech Constitutional Court (*in Czech, Ústavní soud České republiky*).

The legality of acts performed by the City is supervised by the Czech Ministry of Interior (*in Czech, Ministerstvo vnitra*), which may seek a revocation of the City's legislative acts before the Czech Constitutional Court and a revocation of other acts before the Czech administrative courts. In case of acts issued by the City within its delegated powers, other than legislative acts, the Czech Ministry of the Interior may revoke such acts if they are illegal. These procedures do not apply to acts performed by the City in the area of civil, commercial or labour law. The acts performed by the City in the areas of civil, commercial or labour law

are subject to general review by Czech civil courts and other governmental authorities as acts of the other entities in the Czech Republic.

The budgetary income of the City is dependent on the tax income of the Czech Government and transfers (subsidies) (*in Czech, transfery (dotace)*) from the Czech Government. The amount of the City's sharing on tax proceeds of the Czech Government is stipulated by law (see "*Financial Information on Issuer - Income and Expenditures - Sources of Income*"). The Czech Ministry of Finance (*in Czech, Ministerstvo financí*) monitors Czech municipalities and regional authorities, such as the City, in cases of a financial distress. Any extraordinary governmental support to the City in case of the City's distress is not defined by Czech law and the Czech Government intervention or distress bailout in such case is not mandatory. The City has not been subject to any such governmental intervention or distress bailout. Obligations of the City are not in any way guaranteed or otherwise backed by the Czech Republic or any agency, ministry or political subdivision of the Czech Republic.

Institutional Framework

The internal affairs of the City are set out in the City Act and the statute adopted by the City Assembly as Decree No. 55/2000 (the "**Statute**"). The Statute defines the internal relationships of the City and divides autonomous and delegated powers between the City and the 57 self-administered city districts (*in Czech, městská část*) (the "**City Districts**") (see "*City Districts*").

The City is autonomously administered by the City Assembly (*in Czech, zastupitelstvo*). Other bodies of the City are the City Council (*in Czech, rada*), the Mayor (*in Czech, primátor*), the City Hall (*in Czech, magistrát*) and the Municipal Police (*in Czech, Městská policie*). Each of the City Districts is organised in a similar manner, having the District Assembly (*in Czech, zastupitelstvo městské části*), the District Council (*in Czech, rada městské části*), the Mayor (*in Czech, starosta*) and the District Hall (*in Czech, úřad městské části*).

City Assembly

The City Assembly is the supreme authority of the City and comprises 55 – 70 members. The current City Assembly consists of 63 members.

The City Assembly sets up committees as its advisory bodies for individual areas. The committees deal with tasks assigned to them by the City Assembly. Members of the committees must be members of the City Assembly.

The following committees are mandatorily established in accordance with the City Act:

- (a) Finance Committee (*in Czech, finanční výbor*);
- (b) Control Committee (*in Czech, kontrolní výbor*);
- (c) Education Committee (*in Czech, výbor pro výchovu a vzdělávání*);

The City Act empowers the City Assembly to establish other committees as the above. The City Assembly has currently set up the following additional committees:

- (a) Security, Transparent Administration and Legislative Committee (*in Czech, výbor pro bezpečnost, transparentní veřejnou správu a legislativu*);

- (b) Transportation Committee (*in Czech, výbor pro dopravu*);
- (c) Economic Committee (*in Czech, výbor pro hospodářskou politiku*);
- (d) Information Technologies and European Funds Committee (*in Czech, výbor pro informatiku a evropské fondy*);
- (e) Infrastructure Committee (*in Czech, výbor pro infrastrukturu*);
- (f) Culture, Heritage, Expositions, Tourism and Foreign Relations Committee (*in Czech, výbor pro kulturu, památkovou péči, výstavnictví, cestovní ruch a zahraniční vztahy*);
- (g) City Planning Committee (*in Czech, výbor pro územní rozvoj*);
- (h) Health Care, Social Welfare and Housing Committee (*in Czech, výbor pro zdravotnictví, sociální a bytovou politiku*); and
- (i) Environmental Committee (*in Czech, výbor pro životní prostředí*).

The City Assembly has the power to decide on significant matters that concern the City; among other things, it:

- (a) elects and recalls the Mayor, the Deputy Mayor (*in Czech, náměstek primátora*) and members of the City Council;
- (b) approves the budget and annual account of the City;
- (c) adopts local legislation in the areas of the City's autonomous powers;
- (d) approves issues of bonds;
- (e) approves granting or concluding loans in the nominal amount exceeding CZK 10,000,000;
- (f) approves acquisitions, disposals and pledges of real estate assets;
- (g) approves provision or acceptance of subsidies in excess of CZK 50,000,000;
- (h) approves provision of guarantee or an assumption of an indebtedness in excess of CZK 5,000,000;
- (i) approves provision of subsidies to the City Districts;
- (j) approves disposals with shareholdings in companies with a value exceeding CZK 5,000,000;
- (k) establishes and dissolves the Municipal Police;
- (l) adopts any amendments to the Statute;
- (m) approves the zoning plan (*i.e.*, the City development plan);
- (n) revokes decisions of the City Council, if the revocation is proposed by the Mayor; and

- (o) allocates personnel and material resources to the City Hall.

Meetings of the City Assembly are convened in writing by the Mayor, usually chaired by the Mayor and are held at least once every three months. Any decision of the City Assembly must be approved by at least a simple majority of all members, provided that a simple majority of all members of the City Assembly is presented at the meeting.

Elections for the City Assembly and each District Assembly are held on the same date as the elections in all municipalities of the Czech Republic. Elections take place by secret ballot according to a system of proportional representation. The office term of the current City Assembly members commenced on October 16, 2010. The new elections to the City Assembly will be held in autumn 2014, unless the City Assembly is dissolved and extraordinary elections are held earlier. The following parties are represented for the current 2010 – 2014 office term: TOP 09, ODS (Civic Democratic Party), ČSSD (Czech Social Democratic Party) and KSČM (Communist Party). Two members of the City Assembly are not members of any party.

The following table sets out the political composition of the City Assembly as of the date of this Prospectus:

Political Party (English name)	Political Party (Czech name)	Number of members
TOP 09.....	<i>TOP 09</i>	26
Civic Democratic Party.....	<i>Občanská demokratická strana (ODS)</i>	18
Czech Social Democratic Party.....	<i>Česká strana sociálně demokratická (ČSSD)</i>	14
Communist Party.....	<i>Komunistická strana Čech a Moravy (KSČM)</i>	3
Non-applicable (independent members).....		2
		63

On May 23, 2013, the political coalition of the Civic Democratic Party (ODS) and TOP 09 in the City Assembly ended. Subsequently, TOP 09 and the Czech Social Democratic Party (ČSSD) agreed that the Czech Social Democratic Party (ČSSD) will support the City Council comprising of TOP 09’s representatives until the end of the current City Assembly election term in autumn 2014. At the City Assembly meeting held on June 20, 2013, the Czech Social Democratic Party (ČSSD) enabled the election of the new Mayor, Deputy Mayors and members of the City Council nominated by TOP 09 (please see “- *City Council*”).

City Council

The City Council is the executive body of the City and under the City Act shall comprise of eleven members elected by the City Assembly (i.e. the Mayor, Deputy Mayors and members of the City Assembly). The City Council is accountable to the City Assembly.

The City Council may establish commissions. Commissions are advisory bodies of the City Council which are accountable to the City Council.

The City Council exercises the autonomous powers of the City and executes the delegated powers of the City unless the delegated powers are executed by the City Hall. The City Council, among other things:

- (a) administers the City in accordance with the approved budget;
- (b) adopts local legislation in the area of the City’s delegated powers;

- (c) instructs the City Hall in the area of the City's autonomous powers;
- (d) adopts the budget measures in accordance with the City's legislation and budget;
- (e) approves disposals with the City's assets; and
- (f) prepares proposals for meetings of the City Assembly and implements decisions adopted by the City Assembly.

Meetings of the City Council are convened in writing by the Mayor, usually chaired by the Mayor, held on a weekly basis and are not public. Meeting minutes are available to the public. Any decision of the City Council must be approved by at least a simple majority of all members, provided that a simple majority of all members of the City Council is presented at the meeting.

As at the date of this Prospectus, the City Council is comprised of ten members (the Mayor, three Deputy Mayors and six members of the City Council) who were nominated by the political party TOP 09.

On May 23, 2013, the Mayor Bohuslav Svoboda and members of the City Council Aleksandra Udženija and Josef Nosek were recalled by the City Assembly. On the same day, members of the City Council Ivan Kabický and Radek Lohynský resigned from their offices. Mr Svoboda, Mrs Udženija, Mr Nosek, Mr Kabický and Mr Lohynský represented the Civic Democratic Party (ODS). On May 23, 2013, the political coalition of the Civic Democratic Party (ODS) and TOP 09 in the City Assembly ended. Subsequently, TOP 09 and the Czech Social Democratic Party (ČSSD) agreed that the Czech Social Democratic Party (ČSSD) will support the City Council comprising of TOP 09's representatives until the end of the current City Assembly election term in autumn 2014. On June 20, 2013, members of the City council Helena Chudomelová and Pavel Richter of TOP 09 resigned from their offices. At the City Assembly meeting held on June 20, 2013, the Czech Social Democratic Party (ČSSD) enabled the election of the new Mayor, Deputy Mayors and members of the City Council nominated by TOP 09.

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

Name	Position	Area of responsibility	Political party
Tomáš Hudeček	Mayor	<i>City development (zoning plan), security and external relations</i>	TOP 09
Jiří Nouza	Deputy Mayor	<i>Infrastructure and environment</i>	TOP 09
Václav Novotný	Deputy Mayor	<i>Culture, heritage, expositions, tourism and foreign relation</i>	TOP 09
Jiří Vávra	Deputy Mayor	<i>Finance</i>	TOP 09
Lukáš Manhart	Member	<i>Transparent public administration, legislation, sport and leisure</i>	TOP 09
Jan Vašíček	Member	<i>Property management and business development</i>	TOP 09
Martin Dlouhý	Member	<i>Health and social care, housing policy</i>	TOP 09
Eva Vorlíčková	Member	<i>Information technology, EU funds</i>	TOP 09
Ludmila Štvánová	Member	<i>Education and science</i>	TOP 09
Jiří Pařízek	Member	<i>Transportation</i>	TOP 09

Mayor

The Mayor represents the City *vis-à-vis* third parties and acts on behalf of the City. The Mayor is elected by the City Assembly from the members of the City Assembly and is accountable to the City Assembly. The Mayor may be re-elected.

The Mayor has the power to, among other things:

- (a) sign decrees, orders and other decisions of the City Assembly and the City Council;
- (b) implement decisions of the City Assembly and the City Council;
- (c) appoint and recall the Director of the City Hall (*in Czech, ředitel magistrátu*) subject to the approval of the Czech Ministry of Interior;
- (d) set the salary of the Director of the City Hall;
- (e) suspend the effectiveness of the decision of the City Council and request the City Assembly to revoke such suspended decision; and
- (f) manage the Municipal Police.

Currently, the Mayor is Tomáš Hudeček of TOP 09. Mr Hudeček was elected at the meeting of the City Assembly held on June 20, 2013. Unless Mr Hudeček is recalled or resigns earlier, the new Mayor will be elected after the City Assembly elections to be held in the autumn 2014 (if the City Assembly is not dissolved and the City Assembly extraordinary elections are held earlier). The previous Mayor Bohuslav Svoboda was recalled on May 23, 2013 by the City Assembly when the political coalition of the Civic Democratic Party (ODS) and TOP 09 in the City Assembly ended (please see “- *City Assembly*” and “*City Council*”).

City Hall

The City Hall is a professional administrative body of the City responsible for the day-to-day administration of the City within the scope of its autonomous and delegated powers. The City Hall is a politically independent body; its constitution has remained relatively stable, irrespective of the results of the City Assembly elections.

The City Hall is headed by a Director of the City Hall, currently Mr Martin Trnka. The Director of the City Hall attends meetings of the City Assembly and the City Council in an advisory role, and does not have the right to vote. Powers and responsibilities of the Director of the City Hall are stipulated by the City Act and applicable laws. Under the City Act, the Director of the City Hall has the power to:

- (a) implement decisions and instructions of the City Assembly, the City Council or the Mayor;
- (b) set the salaries of the City Hall employees;
- (c) appoint the deputies of the Director of the City Hall upon the approval of the City Council; and
- (d) act as a statutory body towards employees of the City Hall.

The basic organisational units of the City Hall are departments (*in Czech, odbor*). A head of each department is appointed and removed by the City Council on a recommendation of the Director of the City Hall. Each department is a part of an administrative section of the City Hall (*in Czech, sekce Magistrátu hl. m. Prahy*). The City Hall sections are headed by the Director of the City Hall and Deputy Directors of the City Hall (*in Czech, náměstek ředitele*). The City Hall consists of the following sections:

- (a) Director's Department (*in Czech, sekce primo řízená ředitelem Magistrátu hl. m. Prahy*);
- (b) Finance and Asset Management Department (*in Czech, sekce finanční a správy majetku*);
- (c) City Administration Department (*in Czech, sekce správy města*);
- (d) State Administration Department (*in Czech, sekce státní správy*); and
- (e) City Planning Department (*in Czech, sekce rozhodování o území*).

As at January 31, 2013 the City Hall had 1,859 employees.

The City Hall implements the decisions of the City Assembly and the City Council. The City Hall executes most of the City's delegated powers and provides administrative services to the City Assembly and the City Council.

With respect to the City's autonomous powers, the City Hall is responsible for preparing materials for the City Assembly and the City Council, assisting committees of the City Assembly and commissions of the City Council in their activities, discharging and delegating the duties imposed on it by the City Assembly and the City Council and advising and providing administrative support to the City Districts, legal entities (*in Czech, právnické osoby*) and organisational units (*in Czech, organizační složky*) established and founded by the City.

City Districts

The territories of the City Districts are determined by the Statute. The autonomous powers, which are vested in the City Districts by the City Act and the Statute, are exercised by the District Assemblies and the District Councils. Members of the District Councils and the Mayors of the City Districts are elected by the District Assemblies. The Mayor of the City District represents the City District *vis-à-vis* third parties and heads the District Hall.

The City Districts act independently on their own account, and bear any liability incurred as a result of or in connection with such acts, provided that:

- (a) certain acts of the City Districts must be approved in advance by the City Assembly (*e.g.*, the taking of a loan if the aggregate amount of the City District's indebtedness for borrowed money towards third parties amounts to or exceeds 40% of the City District's budgeted income);
- (b) certain acts of the City Districts must be approved in advance by the City Council (*e.g.*, acquisition of real assets); and
- (c) an intention of a City District to make certain acts must be notified to the City Council in advance (*e.g.*, disposals of real assets or the taking of a loan in an

amount exceeding one sixth of the City District's budgeted income) which is thereafter considered by the City Council. The City Council or one fifth of the members of the City Assembly may request the City Assembly to consider this intention. The City Assembly may make any proposal with respect to the above described intention and such proposals are binding upon the City District.

The City Districts manage the assets which are owned and entrusted to them by the City. Such assets include property located within the City Districts required for day to day operation of the City Districts. The City Districts do not own any assets. Any assets acquired by a City District are acquired on behalf of the City and the City District is only entitled to administer such acquired assets. Save as disclosed above with respect to the limits of the City Districts' power to act independently, the City Districts exercise all rights and obligations in relation to the assets entrusted to them by the City or acquired on behalf of the City. In addition, the City Districts are prohibited to dispose of certain categories of assets listed in the Statute (*e.g.*, real assets used for administrative, educational or social welfare purposes).

In the field of budgetary management, the City Districts are subordinated and under control of the City exercised through the City Hall. The control of the City may be exercised by means of an *ad hoc* control or an annual examination of the City District's annual financial statements. The City Districts may, in their own discretion, opt to have the annual financial statement examined by an independent external auditor; in such case, the City does not examine the annual financial statements of the City District.

City as a Region of the Czech Republic

Under the Regional Authorities Act, the Czech Republic is divided into 14 regions administered by self-governing regional authorities, and the City is one of the regional authorities. As such, in addition to autonomous and delegated powers belonging to the City as a municipality, the City exercises the autonomous and delegated powers which belong to a regional authority.

Subsidiaries and Organisations

Companies

The City is a shareholder of companies providing public services (such as public transport, waste management or electricity, gas or heat supplies) or companies conducting standard business activities. All the City's subsidiaries were incorporated under Czech law in the form of a joint-stock company (*in Czech, akciové společnosti*). The City owns no shares in foreign companies.

The financial statements of the City do not include the assets, costs and revenues of the companies of which the City is a shareholder. Subsidies provided to these companies, however, are a part of the City's current and capital expenditures (see "*Financial Information on Issuer – Accounting Procedures of the City*"). Dividends received from the companies are an income of the City.

The following table sets out principal information about companies in which the City owns shares as at March 31, 2013:

as at March 31, 2013				
Name	Scope of Business	Registered capital (CZK thousands)	Shares (%)	Shareholding book value as at December 31, 2012 (CZK thousands)
Bohemia Bingo, akciová společnost v likvidaci¹	Lottery company	1,000	5	0
Dopravní podnik hl. m. Prahy, akciová společnost	Operator of public transport	30,726,125	100	30,726,125
CHEMAPOL GROUP, a.s.²	Industrial holding	2,506,404	1.23	0
Kolektory Praha, a.s.	Operator of collectors (underground passageways of engineering networks)	69,617	100	69,617
Kongresové centrum Praha, a.s.	Congress centre	1,406,254	100	2,672,489
Obecní dům, a.s.	Cultural centre	116,260	100	269,639
PPF banka a.s.	Commercial bank	769,004	6.73	354,892
Pražská energetika Holding a.s.	Holding company	3,598,627	51	1,002,261
Pražská plynárenská Holding a.s.	Holding company	1,515,470	51	369,082
Pražská teplárenská Holding a.s.	Holding company	1,937,691	51	999,126
Pražská vodohospodářská společnost a.s. ...	Water management	5,445	100	12,426
Pražské služby, a.s.	Waste management, waste incineration, electricity production	2,631,167	76.92	2,023,945
PVA a.s.	Exhibition management	5,000	11	468
Rozvojové projekty Praha, a.s.	Business development and management of assets	104,770	100	104,621
TRADE CENTRE PRAHA a.s.	Real estate administration and management	15,000	90	14,070
Úpravna vody Želivka, a.s.	Water treatment plant operator	2,626,500	90.04	953,806
Zdroj pitné vody Káraný, a.s.	Drinking water source operator	399,000	97.22	223,645

1 The company is in liquidation procedure since 1998.

2 The company was declared bankrupt and the bankruptcy proceeding commenced as of January 27, 1999.

Set out below is a brief description of the principal companies in which the City owns a shareholding:

Dopravní podnik hl. m. Prahy, akciová společnost

Dopravní podnik hl. m. Prahy, akciová společnost (“**DPP**”) operates the public transportation in the City and surrounding area, including operation of trams, buses and metro and procures construction of new public transport infrastructure. The company also owns a variety of technical facilities for the operation of the public transportation in the City. The company is the largest public transport operator in the Czech Republic.

The relationship between the City and Dopravní podnik hl. m. Prahy, akciová společnost and subsidies for operation of the public transportation paid by the City to this company are further described in “*Financial Information on Issuer - Income and Expenditures – Expenditures - Transportation*”.

Pražské služby, a.s.

Pražské služby, a.s. is responsible for the waste management in the City, including waste collection, street cleaning, recycling and related environmental services. The company operates approximately 15 waste collection points (8 of them are operated in cooperation with the City), approximately 9,000 waste containers and a municipal waste incinerator. The company is also responsible for the road maintenance in the City and is one of the biggest Czech providers of traffic and road signs.

The City paid to Pražské služby, a.s. for provision of the above described public services CZK 2.3 billion (EUR 89 million) in 2011 and CZK 2.2 billion (EUR 85 million) in 2012.

The City and Northward Holdings Limited are currently negotiating the acquisition of 19.3% of shares in Pražské služby, a.s. by the City from Northward Holdings Limited. As a result of this acquisition, the City would become a 96.24% shareholder in Pražské služby, a.s. On March 19, 2013, the City Council approved the Memorandum on Cooperation between the City and Northward Holdings Limited regarding the acquisition.

Kongresové centrum Praha, a.s.

Kongresové centrum Praha, a.s. (“**KCP**”) is the owner of the major congress centre in the City. Its main activity is the organisation of congresses, symposia, fairs, exhibitions and other similar events.

The revenues of KCP have significantly decreased in the last decade with revenues being CZK 457,078 thousand (EUR 17.7 million) in 2011 and CZK 474,524 thousand (EUR 18.4 million) in 2012. In addition, KCP is overburdened by long-term borrowings amounting, as of December 31, 2012, to approximately CZK 1.6 billion (EUR 62 million) and comprising of, amongst others, banks loans, loans provided by the City and issued bonds.

The City granted to KCP the CZK 10 million (EUR 387 thousand) loan maturing no later than June 30, 2014 and the EUR 3,151,500 loan maturing no later than June 30, 2014. The City also guarantees the CZK 700 million (EUR 27 million) bank loan provided to KCP by Komerční banka, a.s. (see “*Description of Debt of Issuer - Guarantees*”).

KCP also issued EUR 55 million bonds which are guaranteed by the Czech Republic. On April 12, 2012, the guarantee for EUR 55 million bonds was utilised and the Czech

Republic paid the coupon in the amount of EUR 3.2 million. The guarantee must be refunded by KCP to the Czech Republic by April 16, 2014.

The City Council approved the financial restructuring of KCP by a decrease of KCP's registered capital from CZK 1,406,265 thousand (EUR 55 million) to CZK 818,321 thousand (EUR 32 million) using the accumulated KCP's losses and subsequent increase of KCP's registered capital in the amount of CZK 1,906,032 thousand (EUR 74 million) by the Czech Republic, as a result of which the registered capital of KCP will amount to CZK 2,724,353 thousand (EUR 106 million) and the Czech Republic will become the 70% shareholder of KCP. The City estimates that the capital increase will be completed by the end of the year 2013. Thereafter, the City intends to increase its minority stake in KCP by equity contributions to its registered capital. As at the date of this Prospectus, the Government of the Czech Republic has not decided on this restructuring plan.

Pražská energetika Holding a.s.

51% of shares in Pražská energetika Holding a.s. is owned by the City and 49% of shares is owned by EnBW Energie Baden-Württemberg AG. Pražská energetika Holding a.s. is the holding company which owns 58.046% of shares in Pražská energetika, a.s., the distributor and leading supplier of electricity in the City. 41.396% of shares in Pražská energetika, a.s. is directly owned by EnBW Energie Baden-Württemberg AG.

Pražská plynárenská Holding a.s.

51% of shares in Pražská plynárenská Holding a.s. is owned by the City and 49% of shares is owned by E.ON Czech Holding AG. Pražská plynárenská Holding a.s. is the holding company which owns 50.2% of shares in Pražská plynárenská, a.s., the distributor and leading supplier of gas in the City. 49.35% of shares in Pražská plynárenská, a.s. is directly owned by E.ON Czech Holding AG.

The City is currently considering the acquisition of E.ON Czech Holding AG's shares in Pražská plynárenská Holding a.s. and Pražská plynárenská, a.s. The City has commenced negotiations concerning the acquisition of such shares.

Pražská teplárenská Holding a.s.

51% of shares in Pražská teplárenská Holding a.s. is owned by the City and 49% of shares is owned by PT-Holding Investment B.V., a member of the Energetický a Průmyslový Holding group. Pražská teplárenská Holding a.s. is the holding company which owns 47.33% of shares in Pražská teplárenská a.s., the distributor and supplier of heat in the City. 48.67% of shares in Pražská teplárenská a.s. is directly owned by NPTH, a.s., a member of the Energetický a Průmyslový Holding group.

Companies of City Districts

The City Districts are also shareholders of several companies. As at December 31, 2012 the aggregate book value of all shares held by the City Districts in those companies amounted to approximately CZK 837.6 million.

Contributory Units

The City establishes contributory units (*in Czech, příspěvkové organizace*) as non-profit legal entities established for the provision of public services and administration of the City's assets. The legal status of contributory units is governed by Czech Act No. 250/2000

Coll., on budgetary rules of local budgets, as amended (the “**Budgetary Rules Act**”). Principally, two types of contributory units are established by the City – educational (*in Czech, školská příspěvková organizace*) and non-educational (*in Czech, neškolská příspěvková organizace*) contributory units. The purpose and scope of activity of contributory units are set out in their founding deed. Contributory units play an important role in the efficient functioning of the City – *i.e.*, they provide public services in the areas of education, City development, transportation, health care, social welfare, culture, administration of the City’s assets and security.

Contributory units are legal entities which have a right to enter into agreements with third parties or to perform other legal acts. However, any right of contributory units is limited by their founding deeds and applicable law. According to the Budgetary Rules Act, contributory units:

- (a) are limited in entering into agreements with financial obligations;
- (b) may enter into loans or financial lease agreements with the prior written consent of the City;
- (c) may not provide a guarantee for obligations of third parties;
- (d) may not acquire any shares or other securities (securities can only be acquired upon a prior written consent of the City as a consideration for claims against third parties);
- (e) cannot issue, accept or guarantee any promissory notes;
- (f) may not give financial or any other donations to third parties; and
- (g) may not establish legal entities or be a shareholder in companies.

The City, as the founder, provides contributory units with assets to be used and administrated by them for tasks set forth in their founding deeds. These assets are not included in the financial statement of the City (see “*Financial Information on Issuer – Accounting Procedures of the City*”).

Contributory units manage financial resources produced by them and financial resources received from the City. Contributory units receive financial resources from the City in the form of the capital expenditures subsidies (“**capex subsidies**”) or non-capital expenditures contributions (“**non-capex contributions**”). The capex subsidies or non-capex contributions form a part of the City’s current and capital expenditures.

The following table summarizes the aggregate amount of non-capex contributions and capex subsidies provided by the City to its contributory units in 2011 and 2012 and contributions and subsidies budgeted for 2013:

	For the year ended December 31,		
	2011	2012	2013
	(actual)	(actual)	(budgeted)
	(CZK thousands)		
Non-capex contribution.....	7,708,155.2	7,691,361.2	6,828,090.6
Capex subsidies.....	540,640.3	443,252.0	170,297.5
Total.....	<u>8,248,795.5</u>	<u>8,134,613.2</u>	<u>6,998,388.1</u>

Non-educational contributory units

As at March 31, 2013, the City (excluding the City Districts) was the founder of 59 non-educational contributory units. The purpose of the non-educational contributory units is the provision of public services, other than education, and administration of the City's assets.

The following table contains the list of the most important of the City's non-educational contributory units existing as at March 31, 2013 and amount of non-capex contributions and capex subsidies provided by the City to its contributory units in 2011 and 2012 and contributions and subsidies budgeted for 2013:

Name	Scope of Activity	For the year ended December 31,					
		2011	2012	2013	2011	2012	2013
		Non-capex contribution (actual)	Non-capex contribution (actual)	Non-capex contribution (budgeted)	Capex subsidies (actual)	Capex subsidies (actual)	Capex subsidies (budgeted)
(CZK thousands)							
Útvar rozvoje hl. m. Prahy	Development	251,437.0	237,248.7	224,459.8	10,000.0	0.0	5,000.0
Zoologická zahrada hl. m. Prahy.....	ZOO	136,664.9	103,496.5	87,227.3	18,299.6	26,214.8	0.0
Technická správa							
komunikací HMP.....	Transportation	87,160.0	82,569.8	77,719.5	0.0	0.0	0.0
ROPID.....	Transportation	66,197.2	64,310.3	60,450.4	0.0	0.0	0.0
Zdravotnická záchranná služba HMP.....	Health care	227,455.0	221,748.7	202,741.0	427.6	10,800.0	15,000.0
Jedl. ústav, MŠ, ZŠ a SŠ.....	Social care	55,042.3	53,909.0	45,580.0	0.0	0.0	0.0
DS Elišky Purkyňové.....	Social care	25,375.1	26,352.9	34,760.0	3,286.9	2,920.0	0.0
DS Zahradní město.....	Social care	30,886.0	27,615.0	24,796.0	55,332.6	240.0	0.0
DSS Vlašská.....	Social care	32,054.2	30,489.4	26,783.0	144.0	3,137.3	0.0
ICSS Odlochovice.....	Social care	34,420.6	31,621.3	28,297.0	0.0	180.0	0.0
Dětské centrum Paprsek...	Social care	34,025.6	34,758.7	36,024.0	0.0	1,484.0	1,364.5
Centrum soc. služeb Praha..	Social care	74,068.0	89,527.3	75,515.0	16,010.1	7,000.0	0.0
Městská divadla pražská.....	Culture	58,323.4	57,295.3	49,211.0	350.0	15,150.0	0.0
Švandovo divadlo na Smíchově.....	Culture	42,108.0	38,682.0	37,667.0	0.0	0.0	0.0
Hudební divadlo v Karlíně	Culture	67,628.0	64,240.2	59,648.0	7,640.0	0.0	0.0
Divadlo v Dlouhé.....	Culture	38,842.0	39,055.0	38,026.0	0.0	0.0	0.0
Divadlo na Vinohradech...	Culture	68,962.0	69,962.0	63,988.0	2,650.0	891.0	3,803.0
Pražská informační služba	Culture	19,329.0	50,565.0	36,436.0	12,120.0	0.0	0.0
Symfonický orchestr hl. m. Prahy.....	Culture	85,103.0	83,054.0	78,865.0	0.0	0.0	0.0
Galerie hl. m. Prahy.....	Culture	87,220.8	84,502.9	63,409.0	38,600.0	48,800.0	24,300.0
Muzeum hl. m. Prahy.....	Culture	80,517.0	77,114.0	50,000.0	46,930.0	27,552.0	10,000.0
Městská knihovna v Praze..	Culture	227,265.5	222,552.3	213,560.0	4,587.0	1,574.0	1,250.0
Správa služeb hl. m. Prahy	Security	274,428.0	268,691.0	262,118.1	36,000.0	20,000.0	21,162.0
Správa pražských hřbitovů	Funeral services	63,514.4	59,020.1	56,935.7	2,365.0	3,275.0	23,725.0

Educational contributory units

As at March 31, 2013, the City was the founder of 195 educational contributory units comprising schools and other educational institutions in the following structure: 35 high schools, 27 secondary technical schools, 16 higher professional schools, 38 schools for students with special educational needs, 25 vocational schools, 1 school canteen, 7 pedagogical-psychological centres, 2 children's homes, 4 homes, 1 language school, 1 music school, 25 elementary schools of arts and 13 homes for children and youths.

The City grants financial subsidies in the form of non-capex contributions and capex subsidies also to educational contributory units founded by the City Districts. As at March 31, 2013, the City granted financial subsidies to 457 educational contributory units founded by City Districts. These units consist of 241 nursery schools, 194 elementary schools, 12 school canteens, 2 elementary schools of arts and 2 homes for children and youths.

The following table summarizes the aggregate amount of the non-capex contributions and capex subsidies granted to educational contributory units founded by the City and by the City Districts in 2011 and 2012 and the contributions and subsidies budgeted for 2013:

	For the year ended December 31,		
	2011	2012	2013 (budgeted)
	(CZK thousands)		
Educational contributory units founded by City districts.....	144,801	125,521	- ¹
Educational contributory units founded by the City.....	1,242,379.5	1,212,398.3	812,257.0
¹ Not yet budgeted.			

Organisational Units

According to the Budgetary Rules Act, the City established the Municipal Police as the organisational unit. It does not have a legal personality. It acts on behalf of and for the account of the City and its employees are employees of the City. The Municipal Police does not dispose with its own financial resources and it is only authorised to manage the City's resources needed for its activity.

Charitable Trusts

According to Czech Act No. 248/1995, on charitable trusts, as amended (the "**Charitable Trusts Act**"), charitable trusts are non-profit legal entities founded for the purpose of providing public charitable services. The founding deed of a charitable trust sets out the type of charitable services provided by the trust and the conditions under which the services are to be provided. Each charitable trust has its own budget, which is independent from the budget of its founder. The City may, at its sole discretion, be the founder or co-founder of a charitable trust.

Charitable trusts founded by the City provide services related to culture, education, sport, employment, protection and support of national and other minorities or crime and drug prevention. The City usually supports these charitable trusts by its initial financial or non-financial contribution and afterwards by regular annual contributions or by *ad hoc* sponsorship. Contributions granted to charitable trusts form part of the City's current and capital expenditure.

The following table contains a list of the charitable trusts founded by the City which existed as at December 31, 2012 and the amount of contributions granted to charitable trusts by the City in 2011 and 2012 and contributions budgeted for 2013:

Name	Scope of Services	For the year ended December 31,		
		2011	2012	2013
		City's Contribution (actual)	City's Contribution (actual)	City's Contribution (budgeted)
(CZK thousands)				
Činoherní klub, o.p.s.	theatre	16,429	16,110	18,300
Divadlo Archa, o.p.s.	theatre	19,986	18,000	20,000
Praha – Evropské město kultury roku 2000, o.p.s.....	in liquidation	0	0	0
Integrační centrum Praha o.p.s. ¹	social and legal advisory to foreigners	0	2,904 ¹	3,750
Dům národnostních menšin o.p.s.....	centre for national minorities	0	2,000	1,809

¹ Integrační centrum Praha o.p.s. was founded in 2011 with an initial capital contribution of CZK 1,500,000. This contribution is not included in the table.

Litigation

The City is currently involved in a number of legal proceedings. Although the City does not create any accounting reserves in respect of potential liabilities relating to such legal proceedings, the City believes that such liabilities would not, individually or in the aggregate, have a significant adverse effect on its budget, financial condition or ability of the City to perform its obligations under the Notes. Certain significant legal proceedings in which the City is involved as of the date of this Prospectus are described below.

Claim of Device Investments Limited Company

In 2001, PSJ Jihlava, spol. s r.o. filed a claim against Obecní dům, příspěvková organizace, the City's contributory unit seeking the payment of the principal amount of CZK 87,057,014 (EUR 3.4 million) for work allegedly rendered by PSJ Jihlava, spol. s r.o. to Obecní dům, příspěvková organizace, in connection with the refurbishing of the Municipal House under an agreement concluded in 1994. In 2004, PSJ Jihlava, spol. s r.o. assigned its claim to Device Investments Limited Company. In 2006, Obecní dům, příspěvková organizace, was wound-up and replaced in the proceedings by the City.

Claim of Kvintum a.s.

In 2007, PVA a.s. filed a claim against the City seeking compensation of damages and loss of profit in the principal amount of CZK 3,565,983,189 (EUR 138 million) due to an

alleged breach of the joint venture agreement entered into in 1997. The Joint-Venture Agreement concerned the development of an exhibition park in Letňany. In 2007, PVA a.s. assigned its claim to Kvintum a.s.

Claims in connection with waste site in Ďáblice

In the period from 1999 to 2004, Mrs Huňková and Mrs Vlčková filed three petitions against the City seeking the recovery of unjust enrichment in the aggregate principal amount of CZK 263,303,628 (EUR 10.2 million) allegedly caused by the illegal use of plots of land in Ďáblice by the City as a waste site. The final outcome of these proceeding is dependent on, among other things, the results of court proceedings concerning the ownership title of Mrs Huňková and Mrs Vlčková in relation to their respective plots of land.

Claim of Brudra s.r.o.

In 2012, Brudra s.r.o. filed a claim against the City seeking the execution of an option in relation to certain plots of land in Radotín under the future sale agreement dated 2007 between Brudra s.r.o. as the seller and the City as the buyer under a future sale agreement for a purchase price of CZK 406,323,922 (EUR 15.7 million).

Recent Events

Resignation of the Czech Prime Minister and End of Office Term of the Czech Government

On June 17, 2013, Petr Nečas the Czech Prime Minister resigned from its office. On the same date, the office term of the Czech Government ended. The Czech Government headed by Mr Nečas was authorised by the President of the Czech Republic to execute all its powers until a new Czech Government is appointed. The President of the Czech Republic designated Jiří Rusnok as a new Prime Minister to form a new Czech Government. The new Czech Government will be appointed by the President of the Czech Republic and must apply for confidence of the lower house of the Parliament. Current negotiations among the political parties, which are represented in the lower house of the Parliament of the Czech Republic, may also lead to the dissolution of the lower house of the Parliament of the Czech Republic and extraordinary elections. For information on risks relating to the political development in the Czech Republic, please see “*Risk Factors - Risks Relating to the Czech Republic - Risks relating to political developments in the Czech Republic*”.

New Mayor and Members of the City Council

On May 23, 2013, the Mayor Bohuslav Svoboda and members of the City Council Aleksandra Udženija and Josef Nosek were recalled by the City Assembly. On the same day, members of the City Council Ivan Kabický and Radek Lohynský resigned from their offices. Mr Svoboda, Mrs Udženija, Mr Nosek, Mr Kabický and Mr Lohynský represented the Civic democratic party (ODS). On May 23, 2013, the political coalition of the ODS and TOP 09 in the City Assembly ended.

Subsequently, TOP 09 and the Czech Social Democratic Party (ČSSD) agreed that the Czech Social Democratic Party (ČSSD) will support the City Council comprising of TOP 09’s representatives until the end of the current City Assembly election term in autumn 2014. On June 20, 2013, members of the City council Helena Chudomelová and Pavel Richter of TOP 09 resigned from their offices and at the City Assembly meeting held on June 20, 2013 the Czech Social Democratic Party (ČSSD) enabled the election of the new Mayor Tomáš Hudeček, Deputy Mayors Jiří Nouza, Václav Novotný and Jan Vávra and members of the

City Council Jiří Pařízek, Ludmila Štvánová, Jan Vašíček and Martin Dlouhý nominated by TOP 09 (please see “- *City Council*”).

2013 Flood

At the beginning of June 2013, the City, along with areas of Southern, West Central and Northern Bohemia, was affected by a flood in particular, the City Districts lying close to the Vltava River). The flood damaged various private and public properties as well as City’s infrastructure and other assets.

Since 2002 when the City was affected by a historically unprecedented flood, the City constructed most of the planned flood protection facilities which protected a majority of the City Districts, including the City centre (please see “*Financial Information on Issuer - Capital Expenditures - Flood-protection measures for the City*”). In spite of the construction of the flood protection facilities, some City Districts were affected by the 2013 flood. Currently, it is not possible to determine the amount of damage and reconstruction costs incurred or to be incurred in connection with the 2013 flood. However, the extent of the 2013 flood is lower than that of the flood in 2002. Damage caused by the 2013 flood will increase the City’s budgetary expenditures in the year 2013 and following years.

Criminal Proceedings against Certain Members of the City Council and the City Assembly

On March 26, 2013, a criminal proceedings (*in Czech, trestní stíhání*) against (i) six current members of the City Council (i.e., Tomáš Hudeček, Václav Novotný, Lukáš Manhart and Eva Vorlíčková), (ii) two members of the City Assembly Helena Chudomelová and Pavel Richter who had been members of the City Council until June 20, 2013, (iii) four members of the City Assembly who had been members of the City Council until May 23, 2013 (i.e., Bohuslav Svoboda, Josef Nosek, Ivan Kabický and Radek Lohynský) and (iv) certain other employees of the City was commenced by the Czech police with respect to an alleged breach of duty of care (under section 220(1) and (2) of Czech Act No. 40/2000 Coll., criminal act, as amended (the “**Criminal Act**”)) and alleged breach of Czech public procurement law (under section 248(2) and (4)(a) of the Criminal Act) as a result of a procurement of and conclusion of an agreement for IT supporting services for the maintenance of the City’s electronic card (known as Open Card) centre. The members of the City Council and the City Assembly are challenging the resolution on the commencement of the above criminal proceedings.

For purposes of these criminal proceedings and due to the alleged conflict of interest between the City and accused members of the City Council in such proceeding, on April 19, 2013 the public prosecutor appointed a procedural trustee (*in Czech, opatrovník*) of the City in accordance with section 45(2) of Czech Act No. 141/1961 Coll., criminal procedure act, as amended. Such procedural trustee shall only, in the above described criminal proceedings, represent the interests of the City as entity allegedly harmed by the alleged acts of the members of the City Council. The City is challenging the decision to appoint the procedural trustee.

DESCRIPTION OF ISSUER'S ECONOMY

General information

The economy of the City is largely the result of its dominant position as the economic centre of the Czech Republic. The dominance of the City among other Czech regions is evidenced by the relevant macroeconomic data, including gross domestic product (“**GDP**”) and gross value added (“**GVA**”); GVA is the sum of the values added by individual industries (*i.e.* GDP excluding net taxes on products, which cannot be divided among individual industries).

The City’s contribution to the Czech national GDP is approximately 25%. The GDP per capita in the City is more than twice as high as the national average in the Czech Republic.

The economic dominance of the City is determined by many factors, in particular, by the role of the City as the largest national labour market. Workers from the neighbouring regions are employed in the City and contribute to its GDP. Tourism, public investments in infrastructure and development of services industries have also had a positive impact on the economic the development of the City. Nevertheless, the City’s economic performance is dependent on the national economy; the City’s GDP follows the same trends as the GDP of the Czech Republic. The City’s future economic progress is, therefore, dependent, on the positive development of the national economy.

The macroeconomic data from previous years show that the City’s economy was affected by the 2007 and 2008 global economic crisis. The impact of the crisis on the City’s economy reached its maximum level in 2009, when the City’s GDP decreased by almost 3% year-on-year. In 2010, the economy recorded an increase of 2.9% in contrast with the decrease seen in 2009, and the City’s GDP rebounded to a level close to that achieved in 2008. In 2011, the City’s GDP recorded a decrease of 0.4%.

The following table sets out a comparison of the City’s GDP and related indicators in the years ended December 31, 2008, 2009, 2010 and 2011:

	For the year ended December 31,			
	2008	2009	2010	2011
	(CZK millions)			
GDP	977,136	949,568	976,822	973,094
GDP per capita.....	0.797	0.764	0.780	0.786
	(%)			
The City’s share of Czech GDP.....	25.4	25.3	25.7	25.3
GDP per capita of the City – comparison to GDP per capita of the Czech Republic (the Czech Republic average = 100%).....	216.1	213.2	216.0	214.8

Source: Czech Statistical Office

The following table sets out a comparison of the 2010 and 2011 GDP in the City and these regions having the highest GDP in the Czech Republic:

	GDP		
	Prague	Central Bohemia	South Moravia
	(CZK millions)		
2010.....	976,822	399,373	389,787
2011.....	973,094	411,041	396,083

Source: Czech Statistical Office

The following table compares the GDP and GDP per capita of the City with that of comparable Central European capital cities in 2010:

	2010				
	Prague	Bratislava	Warsaw	Budapest	Vienna
GDP (EUR millions).....	38,465	17,621	41,663	38,610	72,063
GDP per capita (EUR)...	30,730	28,443	24,343	22,349	42,600

Source: Czech Statistical Office

The following table sets out the inflation rate in the Czech Republic for the years 2011 and 2012:

	2011	2012
	(%)	
Inflation rate	1.9	3.3

Source: Czech Statistical Office

Production trends

The economy of the City has been influenced by the socioeconomic changes and development that occurred after 1989. One of the characteristic features of the City's economic development was the strengthening the service industry and the diminishing of the size of manufacturing sectors. Despite the development of the service industry, the City is the headquarters of many industrial companies. Agriculture and forestry are developed solely in the suburban parts of the City and their contribution to the City's economy is not substantial.

Since 2000, the services industry has represented more than 80% of the GVA generated in the City on annual basis. The share of the industrial sector in the City's economy is lower than the national average. The most important sub-sectors of the services industry are tourism, health care, transportation and education.

The following table breaks down the City's GVA by sector in the years ended December 31, 2010 and 2011:

	For the year ended December 31,	
	2010	2011
	(%)	
Agriculture, forestry and fishing	0.2	0.3
Industry	10.9	10.5
Services	83.0	83.7

Source: Czech Statistical Office

Tourism

The City and its historical sites are an attraction for visitors from all over the world. The City is also a popular host destination for conferences and related events and is the most frequented destination of domestic business trips. The City offers approximately 80,000 beds. In 2012, more than 5.3 million guests were accommodated in the City, which represented an increase of 7% in comparison to 2011. The annual growth rate, however, slowed down from 9% in 2010 to 6% in 2011 before increasing slightly to 7% in 2012. Tourists from abroad represent nearly 90% of all accommodated visitors.

Health care industry

The City has a dense network of both public and private health care facilities, including specialised facilities and research facilities. These health care facilities also serve people from neighbouring regions of the City. With more than 9,000 hospital beds in 27 hospitals and approximately 9,300 physicians, the health care sector contributes significantly to the City's economy.

Construction

Although severely impacted by the 2007 and 2008 economic crises, the construction sector, including housing construction, still represents an important part of both the City's and the national economy. In 2011, the construction output in the City accounted for 41% of the total national construction output representing a decrease of almost 7% year-on-year. A major component of the City's construction industry, which traditionally has a positive impact on the City's GDP, is housing construction.

After years of growth, in 2011 the City's housing construction recorded, as a result of the recession in the residential dwelling market, a decrease to 3,480 dwellings in comparison with 6,151 dwellings constructed in 2010. However, in 2012 the City's housing construction recorded an increase to 4,024 dwellings completed.

The following table sets out some economic indicators highlighting recent developments in the construction industry:

	For the year ended December 31,	
	2011	2012
Building construction (CZK millions).....	16,412	14,255
Civil engineering construction (CZK millions).....	49,640	44,151
Basic construction output, total (CZK millions).....	71,136	61,289
Building notifications and permits granted.....	7,658	7,147
Dwellings started.....	2,733	2,827
Dwellings completed.....	3,480	4,024

Source: Czech Statistical Office

Employment

The City is the largest national labour market as a result of being able to attract workers from surrounding regions and thus offering a pool of qualified workers to employers. As at December 31, 2011, job vacancies in the City represented 20.9% of all job vacancies in the Czech Republic. The City is also attractive for workers as wages are above the national average. According to preliminary data published by the Czech Statistical Office, the average gross monthly wage in 2012 was CZK 25,101 in the Czech Republic and CZK 32,621 in

Prague. According to preliminary data published by the Czech Statistical Office, the average gross monthly wage in 2011 was CZK 24,436 in the Czech Republic and CZK 31,212 in Prague. The inflow of job-seekers to the City is facilitated by the City being easily accessible by public transit or personal transportation.

The majority of the City's workers are employed in the service sector, followed by industry and construction sector. The following table sets out a comparison of the number of workers employed in the City in various sectors in the years ended December 31, 2010 and 2011:

	For the year ended December 31,	
	2010	2011
	(thousands)	
Employed in agriculture, forestry and fishing	2.2	1.8
Employed in industry and construction.....	118.5	111.4
Employed in services.....	536.1	537.1
Employed, total.....	656.8	650.3

Source: Czech Statistical Office

The following table sets out a comparison of 2010, 2011 and 2012 average gross monthly wages in the City, the Central Bohemia Region and the South Moravia Region; these regions having the highest gross monthly wages in the Czech Republic:

	Gross Monthly Wages		
	2010	2011¹	2012¹
	(CZK)		
Prague.....	30,842	31,212	32,621
Central Bohemia.....	22,654	23,403	24,749
South Moravia.....	22,026	22,520	24,181

1 Preliminary data

Source: Czech Statistical Office

All information in this “*Description of Issuer’s Economy*” section is sourced from the Czech Statistical Office.

FINANCIAL INFORMATION ON ISSUER

Budgetary Procedure

Introduction

The process of preparation and approval of the City's annual budget is governed by the Budgetary Rules Act, the City Act, the Statute and by regulations issued by the Czech Ministry of Finance. The Budgetary Rules Act sets out general rules of the budgetary process and defines the principal scope of budget income and expenditures. The City Act and the Statute provide rules for approving the budget.

The City's budget includes its own budget and the budget 57 City Districts' budgets. The City Districts' budgets are dependent on the City's own budget. The City Districts prepare their budgets after the approval of the City Assembly to the City's own budget.

The budgetary income of the City Districts corresponded to 21.45% of the City's aggregate budgetary income in 2011 and 18.63% in 2012 and corresponds to 23.11% of the City's aggregate income budgeted for 2013. The budgetary expenditures of the City Districts corresponded to 20.58% of the aggregate City's budgetary expenditures in 2011 and 17.48% in 2012 and corresponds to 22.41% of the City's aggregate expenditures budgeted for 2013.

The City's budget comprises of the budgetary income, expenditures and financing. The potential deficits which may arise when expenditures exceed budgetary income are covered by budgetary item "financing" which consists of either external financial sources (loans, bonds, notes or returnable subsidies) or internal financial sources (budgetary savings from previous year). The budgetary item "financing" is also used for repayment of the City's external financial sources.

Approval of City's Budget

The City Hall, the City Council and the City Assembly are the bodies responsible for the preparation and approval of the City's budget. The budgetary year corresponds to the calendar year. The process of preparation and approval of the budget begins in the middle of the preceding year. The draft of the City's own budget (i.e., excluding the budgets of the city Districts) reflects the expected budgetary income and expenditures required for meeting the City's obligations and needs, including the financial requirements of organisations linked to the City's budget (in particular, contributory units) and the budgetary needs of the City Districts. The draft of the budget also takes into account the budget forecast adopted by the City for a five year term.

The draft of the City's own budget is drawn up by the City Hall and then submitted to the City Council for discussion and approval. The approval must be given by October 31 of every year, at the latest. The draft of the City's own budget is then circulated to the City Districts for their comments. The City Districts can submit their comments in respect of the draft budget and these comments are considered by the City Council. The draft of the City's own budget is then submitted to the City Assembly for a final discussion and approval.

The City's own budget is dependent on the national budget, in particular on state subsidies. Therefore, the City's own budget will be approved only after the national budget is approved by the Czech Parliament. In limited circumstances, it is possible for the City to approve its own budget before the approval of the national budget. In such a case, the City has

to temporally substitute an income from the state subsidies that the City expects to receive in the particular year.

Following the approval of the City's own budget, the City Districts commence their own budgetary procedure. The City Districts' budgets are approved by the City Districts Assemblies, Approval of the City Districts budgets is, as a rule, completed in April of the relevant year and the budget of the City, including the City Districts, is usually approved by the City Assembly in May or June of the relevant year. The City Districts' budgets are incorporated in the City's budget.

If a budget of any City District is not approved by a City District Assembly before 1 January of the relevant year, such City District executes its budgetary management until the approval of the City District's budget in accordance with provisional budgetary rules adopted each year by the City Assembly. Under the provisional budgetary rules, the City Districts budgetary management shall be executed in accordance with the City District's budget for the previous year.

Budgets of the City Districts are based on each City Districts' income (*e.g.*, income from administrative and local charges, real estate tax, rentals or income from its own business activities) and transfers (subsidies) from the City. The amount of the City's transfers (subsidies) to a City District is determined by the number of residents, the area of the City District, the number of pupils in schools managed by the City District, and the extent of green areas and roads. The minimum amount of the City's transfers (subsidies) to a City District per resident of a City Districts is CZK 2,400. The budgeted City's transfers (subsidies) to the City Districts in 2013 amounts to CZK 3,300,538 thousand compared to 2012 where the City's transfers (subsidies) to the City Districts amounted to CZK 3,454,549 thousand. For information on the income of the City, please see "*- Income and Expenditures - Sources of Income*".

Adjustment of Budget

The approved budget may be adjusted in accordance with the Budgetary Rules Act. Such adjustments are mandatory if changes have occurred in the financial relationships between the City's budget and some related budget (*e.g.*, the state budget), if changes have occurred in binding ratios with regard to other entities, or when there is a risk of a budgetary deficit. Modifications to the budget are usually made when an actual income falls short of the budgeted income or when the City receives an extraordinary subsidy from other public budgets. Any modification to an approved budget must be approved by the City Assembly.

Closing of Budget

After the end of the budgetary year, the City is required to document the use of any special purpose subsidies or time-limited subsidies to the authority that granted them (usually the state). To the extent that these have not been fully used, the City is required to pay back the unused portion of the subsidies unless the relevant authority agrees to transfer all or part of the subsidy to the next budgetary year. Other financial resources not used by the City in the relevant budgetary year (*i.e.* income from taxes) are transferred to the next budgetary year.

2013 Budget

The data provided in this Prospectus with respect to 2013 relates to the City's budget including budgets of the City Districts. The 2013 City's own budget excluding the budgets of the City Districts was approved by the City Assembly on November 29, 2012. The 2013 budget of the City including the budgets of the City Districts was approved by the City

Council on May 28, 2013 and by the City Assembly on June 20, 2013 (please see “- *Approval of City’s Budget*”).

The following table contains the main items of the City’s 2013 budget including budgets of the City Districts (for detailed information on the budgetary income and expenditures see “*Income and Expenditures*” below):

	2013 City’s Budget (Including budgets of City Districts) <u>(CZK thousands)</u>
Total income	46,646,587.20
Total expenditures	57,120,927.90
Deficit	<u>(10,474,340.70)</u>
Financing	<u>10,474,340.70</u>

Approximately CZK 10 billion deficit of the City’s budget (including budgets of City Districts) is caused by:

- (a) non-inclusion of income from state subsidies for 2013 (in particular, for education and governmental administration) in the amount of approximately CZK 10 billion which comprise most of the deficit; and
- (b) non-inclusion of unpredictable income items (in particular, capital income (e.g., dividends) and income to be received from third parties); and
- (c) a conservative approach to the preparation of the budget.

The 2013 budget deficit in the amount of approximately CZK 10 billion will be covered by the budgetary item “financing”, which will be refinanced by state subsidies provided to the City in 2013 and other income, which is not included in the 2013 budget (in particular, capital income and income to be received from third parties), and the actual amount of 2013 income and expenditures will be also taken into account. The actual amount of 2013 income and expenditures may be different than as set out in the 2013 budget (please see “*Risk Factors – Risk relating to 2013 Budget*”).

Income and Expenditures

The table below provides a summary of the main items comprising the City's budget income and expenditures (including income and expenditures of the City Districts) for years ended December 31, 2011, 2012 and 2013:

	2011 (actual) ¹	2012 (actual) ¹	2013 (budgeted) ⁴
(CZK thousands)			
INCOME – TOTAL	63,752,467.77	62,989,821.90	46,646,587.20
Income from taxes.....	41,491,494.24	41,915,419.72	39,031,754.00
Non-tax income.....	2,356,245.87	3,952,706.29	1,036,933.70
Capital income.....	33,430.58	28,024.00	3,861.00
Transfers (subsidies) received ²	19,871,297.08	17,093,671.89	6,574,038.50
EXPENDITURES –TOTAL	65,722,840.41	61,266,441.03	57,120,927.90
Current expenditures.....	46,078,585.02	43,928,989.95	42,602,699.50
Capital expenditures.....	19,644,255.39	17,337,451.08	14,518,228.40
DIFFERENCE BETWEEN INCOME AND EXPENDITURES	(1,970,372.75)³	1,723,380.87	(10,474,40.70)

1 Examined by auditor.

2 Consolidated.

3 The deficit to be covered by financing.

4 Approved by the City Assembly and not examined by the auditor.

For further information on the deficit of 2013 City's budget, please see "*Financial Information on Issuer – 2013 Budget*".

Sources of Income

As all Czech regions and municipalities, the City has limited income flexibility due to governmental control over tax rates, collection of tax, shares on tax proceeds, and transfers of tax proceeds and subsidies from the Czech Government to the City.

The table below provides detailed information on the City's income (including income of the City Districts) for the years ended December 31, 2011, 2012 and 2013:

	2011 (actual) ¹	2012 (actual) ¹	2013 (budgeted) ³
(CZK thousands)			
Income from taxes – Total.....	41,491,494.24	41,915,419.72	39,031,754.00
Personal income tax.....	10,090,740.58	10,405,502.13	10,440,000.00
Corporate income tax.....	9,296,393.32	10,154,566.52	8,570,000.00
Value added tax.....	19,474,838.40	18,290,544.09	16,890,000.00
Environmental fees and levies.....	711,567.38	695,835.26	785,957.00
Local charges on selected activities and services.....	747,542.37	579,916.83	521,090.90
Other taxes and charges on selected activities and services.....	60,360.89	697,567.89	761,604.60
Administrative fees.....	400,090.50	338,932.65	346,851.50
Real estate tax.....	709,960.79	752,554.34	716,250.00
Non-tax income – Total.....	2,356,245.87	3,952,706.29	1,036,933.70
Income from own activities.....	145,097.67	206,813.62	15,717.70
Overpayments of organizations with direct relation.....	226,566.14	197,192.96	15,932.00
Income from lease of assets.....	13.24	87.08	5.00
Income from interest and yield of financial assets.....	1,301,041.67	2,279,854.33	616,048.40
Income from penalties.....	241,388.52	256,222.37	291,208.00
Refunds of transfers and other income from financial settlements.....	193,252.39	206,059.43	2,770.00
Income from sale of current and fixed assets.....	2.30	6.79	0
Other non-tax income.....	189,105.75	169,688.07	78,030.60
Income from use of exclusive rights to natural resources.....	1,480.57	1,211.10	1,064.00
Installments received on funds lent.....	58,297.61	635,570.53	16,158.00
Capital income – Total.....	33,430.58	28,024.00	3,861.00
Income from sale of fixed assets.....	918.12	379.87	0 ⁴
Other capital income.....	32,512.46	27,644.14	3,861.00
Income from sale of shares and ownership stakes.....	0	0	0 ⁴
Transfers (subsidies) received – Total..	34,200,418.56	27,701,268.41	6,574,038.5
Consolidation².....	(14,329,121.48)	(10,607,596.52)	-⁵
Non-capex-related transfers from state budget.....	12,345,692.73	10,901,914.61	813,410.00
Non-capex-related transfers from municipalities.....	10,608.61	12,114.74	3,206.00
Transfer from own funds for economic (entrepreneurial) activities.....	19,307,996.04	15,607,496.96	5,757,422.50
Non-capex-related subsidies from abroad	259.42	1,879.83	0 ⁶
Capex-related subsidies from central state budgets.....	2,527,469.76	1,170,862.28	0 ⁶
Capex-related subsidies from state financial assets.....	8,392.00	7,000.00	0 ⁶
TOTAL INCOME.....	63,752,467.77	62,989,821.90	46,646,587.20

1 Examined by the auditor.

2 Only selected transfers (subsidies) income items are subject to consolidation.

3 Approved by the City Assembly and not examined by the auditor.

4 Unpredictable income.

5 Not budgeted.

6 Not included in the 2013 and will be received during 2013.

Approximately CZK 16 billion difference between City's 2012 and 2013 budgetary income is caused by a conservative approach to the preparation of 2013 budget and non-inclusion of (i) approximately CZK 10 billion state transfers (subsidies) which are to be received by the City during the year 2013 and (ii) unpredictable income (in particular, capital income (e.g., dividends) and income to be received from third parties). For further information, please see "*Financial Information on Issuer – 2013 Budget*".

Income from Taxes

The most important source of the City's income is a share of the aggregate proceeds of the following taxes collected by the Czech Government:

- (a) Value added tax;
- (b) Personal income tax;
- (c) Corporate income tax; and
- (d) Real estate tax.

The total tax income of the City (including the City Districts) amounted to approximately CZK 41.9 billion in 2012, representing approximately 67% of the City's total income, and approximately CZK 41.5 billion in 2011, representing approximately 65% of the City's total income.

All taxes are collected by the financial offices (i.e. governmental authorities) and those attributable to the municipalities and regions are distributed to them through the Czech Ministry of Finance. As the City is both a municipality and a region, it receives two shares of the redistributed taxes.

The share of redistributed taxes distributed to each municipality by the Czech Government is determined on an annual basis by a decree of the Czech Ministry of Finance. The share is determined annually as a percentage ratio for a period from September 1 until August 30, in accordance with rules set forth in Czech Act No. 243/2000 Coll., on budgetary allocation of taxes, as amended (the "**Act on Budgetary Allocation of Taxes**"). Due to the recent amendment to the Act on Budgetary Allocation of Taxes, the share of redistributed taxes distributed to each municipality in 2013 was determined with effect from January 1, 2013.

The share of redistributed taxes given to each region is set as a fixed percentage ratio by the Act on Budgetary Allocation of Taxes.

Significant changes in 2012

In 2012, the lower rate of value added tax was raised from 10% to 14% while the upper rate of value added tax remained unchanged at 20%. Also, the share of the national, aggregate value added tax proceeds allocated to municipalities was lowered to 19.9% from 21.4% and the share of the national, aggregate value added tax proceeds allocated to regions was lowered to 8.3% from 8.9%. The costs of this change, in combination with an overall decrease of the Czech national consumption, amounted to approximately CZK 1,184 million of the City's tax income in 2012 when compared to 2011 (see "*Development of the Czech tax sharing scheme*" below).

Significant changes in 2013

Starting in 2013, a portion of the shared taxes and subsidies from the Czech Government will be redistributed away from the City and other large Czech cities in favour of small Czech municipalities. In particular, the City's share in the sum of all tax proceeds allocated to all municipalities have been decreased from 31.8% to 28.1%. See "Development of the Czech tax sharing scheme" below.

Development of the Czech tax sharing scheme

The table below provides information on the development of the national tax proceeds share distributed to Czech municipalities and regions in the years ended 31, 2011, 2012, 2013, 2014, 2015 and 2016 according to current law:

	MUNICIPALITIES					
	2011	2012	2013	2014	2015	2016
	(%)					
Share of all municipalities in aggregate sum of taxes collected by Czech Government						
<i>Value added tax</i>	21.4	19.93	20.83	20.83	20.83	21.93
<i>Personal income tax</i>						
Employees.....	21.4	21.4	22.87	22.87	22.87	23.58
Entrepreneurs.....	12.8	12.8	14.1	14.1	14.1	14.1
Withholding.....	21.4	21.4	23.58	23.58	23.58	23.58
<i>Corporate income tax</i>	21.4	21.4	23.58	23.58	23.58	23.58
<i>Incentive tax (Share of employees' income tax)</i>	1.5	1.5	1.5	1.5	1.5	1.5
City's share in sum of all taxes allocated to all municipalities						
<i>Value added tax</i>	31.64 ¹	31.76 ³	28.1 ⁵	- ⁶	- ⁶	- ⁶
	31.76 ²	31.5 ⁴	- ⁶	- ⁶	- ⁶	- ⁶
<i>Personal income tax</i>	31.64 ¹	31.76 ³	28.1 ⁵	- ⁶	- ⁶	- ⁶
	31.76 ²	31.5 ⁴	- ⁶	- ⁶	- ⁶	- ⁶
<i>Corporate income tax</i>	31.64 ¹	31.76 ³	28.1 ⁵	- ⁶	- ⁶	- ⁶
	31.76 ²	31.5 ⁴	- ⁶	- ⁶	- ⁶	- ⁶
<i>Incentive tax (Share of employees' income tax)</i>	17.71 ¹	17.6 ³	18 ⁵	- ⁶	- ⁶	- ⁶
	17.6 ²	18 ⁴	- ⁶	- ⁶	- ⁶	- ⁶

1 Period starting January 1, 2011 and ending August 31, 2011.

2 Period starting September 1, 2011 and ending December 31, 2011.

3 Period starting January 1, 2012 and ending August 31, 2012.

4 Period starting September 1, 2012 and ending December 31, 2012.

5 Period starting January 1, 2013 and ending August 31, 2013.

6 Not yet determined.

	REGIONS					
	2011	2012	2013	2014	2015	2016
	(%)					
Share of all regions in aggregate sum of taxes collected by Czech Government						
<i>Value added tax</i>	8.92	8.29	7.86	7.86	7.86	8.28
<i>Personal income tax</i>						
Employees.....	8.92	8.92	8.65	8.65	8.65	8.92
Entrepreneurs.....	5.35	5.35	5.35	5.35	5.35	5.35
Withholding.....	8.92	8.92	8.92	8.92	8.92	8.92
<i>Corporate income tax</i>	8.92	8.92	8.92	8.92	8.92	8.92
City's share in amount of all taxes allocated to all regions						
<i>Value added tax</i>	3.18	3.18	3.18	3.18	3.18	3.18
<i>Personal income tax</i>	3.18	3.18	3.18	3.18	3.18	3.18
<i>Corporate income tax</i>	3.18	3.18	3.18	3.18	3.18	3.18

Other tax income

The City, as a municipality, additionally retains:

- (a) 30% of the proceeds of personal income tax paid by entrepreneurs and collected in the area of the City;
- (b) corporate income tax (except for withholding taxes) paid by the City to the Czech Republic; and
- (c) all proceeds of the real estate tax collected in the area of the City; the local real estate tax is the income of the City Districts.

Lottery tax

With effect from January 1, 2012, a new lottery tax payable by operators of slot machines and operators of other gambling games (*e.g.*, betting operators, lotteries, casinos) was introduced to make up for the cancelled local fee and decreased administrative fee payable by operators of slot machines. Such lottery taxes are allocated to the City District budgets. 80% of the lottery tax proceeds paid by operators of slot machines and 30% of the lottery tax proceeds paid by operators of other gambling games is shared by all Czech municipalities. In 2012, the City's income from the lottery tax amounted to CZK 662.5 million, 40% of which was transferred to the City Districts. Under a law adopted by the Czech Parliament on June 20, 2013 (which is currently subject to execution by the President of the Czech Republic), with effect from January 1, 2014 betting and lottery operators may decide to pay up to 25% of the lottery tax directly to the Czech Olympic Committee instead of the Czech Republic and Czech municipalities. It is estimated by the Czech Olympic Committee that the aggregate proceeds of the lottery tax to be received by the Czech Republic and all Czech Municipalities may be decreased by up to CZK 400 million, which may subsequently cause a decrease in the City's income by approximately CZK 100 million.

Administrative and local charges

Administrative charges, local charges, and waste disposal charges paid to the City constitute quasi-fiscal income. Most of these charges and fees are capped by law.

In 2012, the waste disposal charges amounted to approximately CZK 687 million in comparison to 2011 when charges amounted to approximately CZK 703 million. Income from the waste disposal charges is to be spent on the provision of waste related services.

Administrative charges are paid for administrative services provided by the City or the City Districts to its residents (*e.g.*, registration of cars or issuance of driving licenses). In 2012, administrative charges amounted to approximately CZK 338 million when administrative charges amounted to approximately CZK 400 million.

Local charges consist mainly of charges paid for the accommodation of tourists, use of public areas, or ownership of dogs. In 2012, local charges amounted to approximately CZK 579 million while in 2011, local charges amounted to approximately CZK 747 million.

Ecological levies

The following ecological levies, which are collected by the Czech governmental agencies, are redistributed to the City: (i) levy for use of agriculture land for another purpose, (ii) levy for use of underground water and (iii) levy for use of forest land for another purpose. In 2012, ecological taxes amounted to approximately CZK 695 million and in 2011 they amounted to CZK approximately 711 million.

Transfers (Subsidies)

Transfers (subsidies) from the state budget serve, in particular, as partial compensation for (i) costs of social welfare, (ii) execution of governmental administration, (iii) education and (iv) transportation. Transfers (subsidies) from the state budget amounted to approximately CZK 17 billion in 2012, representing approximately 27% of the City's total income, and in 2011 to approximately CZK 20 billion, representing approximately 32% of the City's total income in that year.

Other Non-tax Income

Non-tax income comprises, in particular, income from the City's activities (principally, rental from the letting of its real estate portfolio as well as proceeds of any sales of real estate), transfers of surpluses from its contributory organisations and interest on deposits. In 2012, non-tax income amounted to approximately CZK 3,952 million, corresponding to 6% of the City's total income (including the City Districts), and in 2011 they amounted to CZK approximately 2,356 million, corresponding to 4% of the City's total income (including the City Districts) in that year.

Expenditures

The following tables provide detailed information on the City's current (i.e. non-capital expenditures) and capital expenditures (including the expenditures of the City Districts) for the years ended December 31, 2011, 2012 and 2013:

	2011 (Actual) ¹	2012 (Actual) ¹	2013 (Budgeted) ²
	(CZK thousands)		
Municipal development – Total.....	729,270.43	546,969.51	847,193.20
- current expenditures.....	394,224.91	328,732.31	351,595.20
- capital expenditures.....	335,045.52	218,237.20	495,598.00
Municipal infrastructure – Total.....	4,823,973.21	4,475,260.08	3,813,535.20
- current expenditures.....	2,813,585.93	2,671,195.63	2,290,167.20
- capital expenditures.....	2,010,387.28	1,804,064.45	1,523,368.00
Transportation – Total.....	25,865,577.30	25,115,095.30	20,500,122.60
- current expenditures.....	14,993,162.26	14,362,259.39	13,909,093.20
- capital expenditures.....	10,872,415.04	10,752,835.91	6,591,029.40
Education, youth and self-administered territorial units - Total	14,780,329.60	14,002,003.41	13,202,901.40
- current expenditures.....	12,394,396.66	12,524,715.73	11,141,308.80
- capital expenditures.....	2,385,932.94	1,477,287.68	2,061,592.60
Health care and social welfare – Total.....	4,910,822.84	3,022,441.54	2,286,093.90
- current expenditures.....	3,727,938.63	2,020,005.10	1,741,588.90
- capital expenditures.....	1,182,884.21	1,002,436.44	544,505.00
Culture, sport and tourism – Total	2,281,324.04	2,283,164.09	2,009,011.70
- current expenditures.....	1,975,805.61	1,942,173.07	1,733,481.10
- capital expenditures.....	305,518.43	340,991.02	275,530.60
Security – Total.....	2,309,602.01	2,131,895.86	2,258,514.60
- current expenditures.....	2,117,547.29	2,031,307.25	1,888,042.60
- capital expenditures.....	192,054.72	100,588.61	370,472.00
Economy – Total.....	2,270,692.67	1,953,263.00	2,072,892.50
- current expenditures.....	683,530.69	660,324.55	843,529.50
- capital expenditures.....	1,587,161.98	1,292,938.45	1,229,363.00
Internal administration – Total.....	6,755,533.24	6,182,349.46	6,940,303.20
- current expenditures.....	5,991,924.61	5,839,181.27	5,815,729.10
- capital expenditures.....	763,608.63	343,168.19	1,124,574.10
Treasury management – Total.....	995,715.07	1,553,998.78	3,190,359.60
- current expenditures.....	986,468.43	1,549,095.65	2,888,163.90
- capital expenditures.....	9,246.64	4,903.13	302,195.70
TOTAL EXPENDITURES	65,722,840.41	61,266,441.03	57,120,927.90
- current expenditures.....	46,078,585.02	43,928,989.95	42,602,699.50
- capital expenditures.....	19,644,255.39	17,337,451.08	14,518,228.40

1 Examined by the auditor.

2 Approved by the City Assembly and not examined by the auditor.

Approximately CZK 4 billion difference between City's 2012 actual and 2013 budgeted capital expenditures is caused by conservative approach to the preparation of the 2013 budget and contemplated external financing of certain capital expenditures of the City (Metro A or the Blanka Tunnel). The budget of 2013 expenditures will be adjusted during 2013 in accordance with actual amount of received transfers (subsidies), capital income (e.g., dividends) and other income not included in the 2013 budget.

Transportation

Transportation is the City's largest expenditure item, accounting for approximately 39.4% of total (including the City Districts) expenditures in 2011 and 41% in 2012.

This category consists of two main components – public transportation and the road network. The main part of transport sector expenditures are subsidies to DPP (the public transportation operator) and investing in transportation infrastructure (see “- *Capital Expenditures*”).

Pursuant to the 10 year contract entered into between the City and DPP in 2009, the City is obliged to compensate DPP for costs of operating the public transportation in the City which are not covered by revenues of DPP. In 2011, the City's compensation to DPP amounted to CZK 11.1 billion (43% of 2011 transportation sector expenditures) and in 2012 to CZK 10.3 billion (41% of 2012 transportation sector expenditures).

Approximately 42% of the expenditures on transportation in 2011 and 42.8% in 2012 was spent as capital expenditures, with the remaining 58% and 57.2%, respectively, being current expenditures in the relevant years.

Education

Education is the City's second-largest expenditure, accounting for approximately 22.5% of total expenditures (including the City Districts) in 2011 and 22.9% in 2012. Expenditures under this category comprise of the funding of schools and educational facilities which are operated by the City and the City Districts (see “*Description of Issuer - Subsidiaries and Organisations - Contributory Units - Educational contributory units*”).

Approximately 16.1% of the expenditures on education in 2011 and 10.6% in 2012 was spent as capital expenditures, with the remaining 83.9% and 89.5%, respectively, being current expenditures in the relevant years.

Internal Administration

Internal administration is the City's third-largest expenditure, accounting for approximately 10.3% of total expenditures (including the City Districts) in 2011 and 10.1% in 2012. Expenditures under this category comprise of the running of the public archives, birth, death and marriage registries, telecoms and payment of the salaries of civil servants.

Approximately 11.3% of the expenditures on internal administration in 2011 and 5.6% in 2012 was spent as capital expenditures, with the remaining 88.70% and 94.5% respectively being current expenditures in the relevant years.

Municipal Infrastructure

Municipal infrastructure is the City's fourth-largest expenditure, accounting for approximately 7.4% of total expenditures (including the City Districts) in 2011 and 7.3% in

2012. This item consist mainly of expenditures which relate to waste disposal, maintenance of the City's green areas, parks, zoos as well as botanical gardens.

Approximately 41.7% of the expenditures on municipal infrastructure in 2011 and 40.3% in 2012, was spent as capital expenditures, with the remaining 58.3% and 59.7%, respectively, being current expenditures in the relevant years.

Health Care and Social Welfare

Health care and social welfare is the City's fifth-largest expenditure, accounting for approximately 7.5% of total (including the City Districts) expenditures in 2011 and 4.9% in 2012.

In the area of social welfare, the City runs a number of retirement homes and homes for handicapped children as well as counselling centres for drug addicts and young people. The City also funds a number of non-profit organisations engaged in such areas 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 expenditures are 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 24.1% of the expenditures on health care and social welfare in 2011 and 33.2% in 2012 was spent as capital expenditures, with the remaining 75.9% and 66.8%, respectively, being current expenditures in the relevant years.

Culture, Sport and Tourism

Culture, sport and tourism combined are the City's sixth-largest expenditure, accounting for approximately 3.5% of total (including the City Districts) expenditures in 2011 and 3.7% in 2012.

The City subsidises a number of theatres, museums, art galleries, orchestras and observatories as well as major cultural events such as the Prague Spring Music Festival. Capital expenditures in this category are also expended on the refurbishment of churches, sports complexes and cultural buildings. Expenditures on tourism focus on the direct support of tourism in the City (e.g., the City tourist guide services) and the promotion of the City abroad through participation at special fairs and exhibitions.

Approximately 13.4% of the expenditures on culture, sport and tourism in 2011 and 14.9% in 2012 were spent as capital expenditures, with the remaining 86.6% and 85.1%, respectively, being current expenditures in the relevant years.

Security

Security is the City's seventh-largest expenditure, accounting for approximately 3.5% of total (including the City Districts) expenditures in 2011 and 3.5% in 2012. This item consists mainly of the costs and expenses of the Municipal Police and City Fire Brigade.

Approximately 8.3% of the expenditures on security in 2011 and 4.7% in 2012, was spent as capital expenditures, with the remaining 91.7% and 95.3%, respectively, being current expenditures in the relevant years.

Economy

Economy is the City's eight-largest expenditure, accounting for approximately 3.5% of total (including the City Districts) expenditures in 2011 and 3.2% in 2012. This budgetary item includes expenditure on street lighting, street cleaning and other similar municipal services as well as the maintenance of the City's extensive housing portfolio.

Approximately 69.9% of the expenditures on economy in 2011 and 66.2% in 2012 was spent as capital expenditures, with the remaining 30.1% and 33.8%, respectively, being current expenditures in the relevant years.

Treasury Management

Treasury management is the City's ninth-largest expenditure, accounting for approximately 1.5% of total (including the City Districts) expenditures in 2011 and 2.5% in 2012. These funds are used for debt service and funding of the expenses relating to the City's financial transactions (including hedging).

Municipal Development

Municipal development is the City's ninth-largest expenditure, accounting for approximately 1.1% of total (including the City Districts) expenditures in 2011 and 0.9% in 2012. This category comprises expenditures on the construction and repair of the City owned properties.

Approximately 45.94% of the expenditures on municipal development in 2011 and 39.9% in 2012 was spent as capital expenditures, with the remaining 54.1% and 60.1%, respectively, being current expenditures in the relevant years.

Capital Expenditures

The City is committed or plans to fully implement large scale projects relating primarily to the transportation. Set out below is a description of seven strategic projects realised or planned to be realised by the City.

North-western segment of the Prague Ring Road - set of ring road structures known as the "Blanka Tunnel"

Under the City's zoning plan, the structures comprising the north-western segment of the Prague Ring Road (the "**Blanka Tunnel**") form a part of the City's main road network and are important for facilitating transportation in the City. This set of structures represents a high-capacity traffic route which will bring significant environmental benefits due to the use of a system of tunnels. The Blanka Tunnel comprises three structures forming a part of the City's ring road, specifically the Myslbekova - Prašný Bridge segment, the Prašný Bridge – Špejchar segment and the Špejchar - Pelc/Tyrolka segment. The route runs from the Malovanka Overpass across Prašný Bridge, Špejchar and Letná, Stromovka and Troja and ends at the Pelc/Tyrolka intersection. In the Špejchar – Pelc/Tyrolka segment, a new bridge, Trojský Bridge, is additionally being constructed for trams and automobile traffic.

Actual construction of the individual segments commenced in 2007 to 2008, while financial resources had been committed to advance the work on the preparation of the project since 1998. Presently, a majority of the construction work has been completed and the installation of the equipment is underway. Currently, the project is intended to be in operation in mid-2014 and finishing work on the project should continue until 2016.

The expected costs of the entire project amount to CZK 36.98 billion, of which CZK 25.73 billion has already been expended and approximately CZK 11.25 billion remains to be expended.

The project and its construction have been subject to significant changes, the realisation of which is subject to certain restrictions and conditions provided in the Czech Public Procurement Act. Therefore, the City is currently facing a significant risk that the construction of the Blanka Tunnel will not be completed by mid-2014 and related cost may increase significantly. For further information on this risk, please see “*Risk Factors – Risk relating to the construction of the north-western segment of the Prague Ring Road (the Blanka Tunnel)*”.

The net proceeds of the issue of the Notes will be used by the City for the financing of a part of capital expenditures to be spent on the development and construction of the Blanka Tunnel as described above (see “*Use of Proceeds*”).

The following table provides detailed information on the profile of capital expenditures spent on the Blanka Tunnel:

Project Segments	Commenced	Expected Completion	Costs	Expended Costs	Budgeted costs 2013 ¹	Expected budgetary Expenditures		
						2014	2015	2016
(CZK millions)								
Myslbekova – Prašný most	2008	2016	8,844	5,463	2,209	1,034	98	41
Prašný Most – Špejchar....	2008	2016	4,274	3,329	349	541	47	8
Špejchar – Pelc/Tyrolka								
....	2007	2016	23,862	16,939	4,388	2,371	140	24
TOTAL.....			36,980	25,731	6,946	3,946	285	73

1 Including funds not expended in 2012.

South-western segment of the Prague Ring Road

Most of the south-western part of the ring road has already been completed and in operation, including the Malovanka overpass. The last part of this project, specifically an underground tunnel to Myslbekova Street, is currently being completed. The construction costs are being covered exclusively by the City’s budget. The remaining part of the project (the underground tunnel to Myslbekova Street) is expected to be in operation in 2014.

The total cost of this project is CZK 18.4 billion, of which CZK 17.5 billion has already been expended and approximately CZK 900 million remains to be expended.

North-eastern segment of the Prague Ring Road

The north-eastern segment of the Prague Ring Road is composed of two structures: The Pelc/Tyrolka – Balabenka segment and the Balabenka - Štěrboholská Radial Road. The construction of these two structures has not commenced as of the date of this Prospectus. This

project is presently in the phase of project preparation and engineering work. This phase also involves resolving land ownership matters. In the light of the current economic situation, it is being considered that a detour along existing roads could serve as a temporary replacement for this segment and the construction of this part of the ring road would then be deferred. This segment is the last missing component of the Prague Ring Road. Construction is expected to take about six years.

Originally, the total costs were estimated to be CZK 14.2 billion. As segments involving tunnels form a large part of the project, a significant increase in the total costs is anticipated. CZK 55 million has already been expended for verification studies and pre-project preparatory work.

Metro Line A (Dejvická – Motol)

The extension of Metro Line A is 5.7 km long. The extended route links to the existing metro line segment in the Dejvická Station and continues along the new underground stations being constructed, specifically Bořislavka, Veleslavín Train Terminal and Petřiny, to the above-ground station Motol Hospital, where the line will end (although there could be a future extension to Vaclav Havel Airport). Commencement of operation is planned for November 2014 and funding should be completed in 2015.

Financial resources from funds of the EU – Operational Programme for Transport – amount to approximately CZK 7.4 billion. The contribution from the City's budget towards this project is CZK 14 billion.

The total cost for the construction of the segment of the line from Dejvická Station to Motol Hospital is CZK 22.5 billion. Approximately CZK 9 billion has been already expended.

Metro Line D

The endpoints of the line will be the Náměstí Míru and Písnice Depot stations. The length is 10.6 km and the line will have a total of 10 stations. The new metro line will link the areas of Krč, Komořany and Kamýk to the City centre. The construction costs exceed the capacity of the City's budget and this project would only be implemented if subsidies were to be provided from the state budget or from other sources. An alternative that is being considered is the funding or the co-funding of the project via a public private partnership. Originally, it was anticipated that construction would start in 2015 but the actual date is likely to be later. Implementation of the project is expected to take nine years.

The total cost is estimated to be CZK 46.2 billion, of which CZK 367 million has already been expended for verification studies and pre-project preparatory work.

Flood-protection measures for the City

This is a comprehensive system of fixed and mobile facilities that are scaled for the floods experienced in August 2002 (with a buffer) and designed to protect the entire area of the City. During the construction work performed to date, flood-protection systems have already been completed in the City neighborhoods of Staré Město, Josefov, Malá Strana, Karlín, Libeň, Holešovice, Výtň, Podolí, Smíchov, Modřany, Zbraslav, Radotín and Troja, and 75% of the flood-protection system was completed in the areas of Velká Chuchle and Malá Chuchle. By the end of 2012, 90% of all the measures planned were put in place. Construction of the remaining 10% will be completed in the 2013 – 2016 period.

The costs are covered by the City's budget. The total costs are CZK 4.3 billion. Of this amount, approximately CZK 550 million still needs to be expended. The anticipated completion is 2016.

Central Waste-Water Treatment Plant at Císařský Island

Under European and Czech law, the City was obliged to comply with certain waste water emission limits by 2010. The CEI, the competent Czech governmental authority, allowed the City to release waste water in amounts exceeding the emission limits, provided that City upgrades the existing waste water treatment plant at Císařský Island in accordance with the timetable approved by the CEI. Under such timetable, the upgrade of the existing waste water treatment plant shall have been commenced in December 2012 and shall be completed in 2017. Required regulatory permits have been obtained and the contract with suppliers for upgrade of the waste water treatment plant has been signed; however, only particular works on the upgrade of the existing waste water treatment plant have been realised. Therefore, the City is currently facing a significant risk that (i) the City could be significantly fined by the CEI if it identifies that the City does not fulfil the approved timeline for the upgrade and is therefore in breach of the emission limits after the end of June 2013 and/or (ii) contractors could potentially claim payment of alleged damages and/or cost reimbursement against the City if the delay of the project continues or the project is not commenced.

Under timeline approved by the CEI, the additional new treatment line shall be constructed by 2025. Required permits for this construction have not been obtained.

The total costs amount to approximately CZK 13.4 billion. CZK 350 million has already been expended and CZK 13 billion still needs to be expended on construction up to the completion date of 2025. Following two years of negotiations with a representative from the European Commission, the City was informed that the European Commission would not provide financial resources for this project. Available options for funding this project are presently considered.

Accounting Procedures of the City

Principles

The City's accounts are maintained, and annual financial statements are prepared, in accordance with

- (a) Czech Act No. 563/1991 Coll., on accounting, as amended;
- (b) the Budgetary Rules Act;
- (c) Decrees No. 410/2009 Coll., 449/2009 Coll. and 383/2009 Coll., as each of the decrees were amended; and
- (d) Czech Accounting Standards No. 701-708.

Financial statements

Under the above mentioned law and regulations, the City prepares its annual financial statements (the annual financial statements relate the City and all the City Districts), which comprise of the balance sheet, income statement, annex, cash flow statement and statement of changes in equity (see "*Documents Incorporated by Reference*").

The balance sheet is prepared on the basis of the principle of historical cost (and depreciation thereof) and selected parts of the balance sheet are prepared on the basis of values determined under specific legal regulations.

The income statement is prepared on an accrual basis, where expenses and income (also referred to as revenues) are reported in the period to which they relate.

The annual financial statements set forth the assets and liabilities (including equity) and the expenses and income of those accounting units that form part of the City's total operations.

Financial statements of the City and the companies, contributory units and charitable trusts of the City are not consolidated.

Budgetary Statement

Since 2010, the City's statement of income, expenses and financing (also named as statement receipts and disbursements) (the "**Budgetary Statement**") has not formed a part of the City's annual financial statements. However, the City prepares and publishes it.

The Budgetary Statement is prepared on the basis of cash accounting and uses income actually received and expenditures actually made. The Budgetary Statement contains eliminations in the form of a consolidation of income and expenditures.

Companies and contributory units

Companies in which the City or the City Districts has ownership interests (see "*Description of Issuer - Subsidiaries and Organisations - Companies*") are not considered to be part of the City's operations. The acquisition costs of the ownership interest in such companies are reported in the balance sheet as a component of financial fixed assets.

The City's contributory units are not included in the City's annual financial statements (see "*Description of Issuer - Subsidiaries and Organisations - Contributory Units*"). Non-capex contributions and capex subsidies provided to contributory units are reported in both the income statement and the Budgetary Statement.

Off-balance-sheet accounts

The City uses off-balance-sheet accounts. The significance threshold for off-balance-sheet accounts was set at above CZK 50 million and for estimates and accruals such significance threshold was set at above CZK 5 million. These accounts capture both contingent claims (receivables) and contingent liabilities.

Major accounting methods

Set forth below are the major accounting methods used for preparation of the City's annual financial statements for the years 2011 and 2012:

Provisions

In the case of receivables and other claims, provisions are made in the amount of 10% of the value of the relevant receivable for every completed 90 days period after the due date of the relevant receivable. Since 2011, it has been possible to make provisions to intangible and tangible fixed assets, to financial fixed assets and to make provisions to reduce the value of

inventory. The City did not make such adjustments in 2011, and in 2012 such provisions were made only in isolated cases.

Reserves

Reserves are made to cover identified risks and costs where the purpose of such costs is known and where it is likely that such costs will occur but it is not clear what will be their financial volume or date of their occurrence. The City itself has not yet created its own reserves but certain City Districts have done so.

Valuation at fair value

Fair value is used to value assets designated for sale, financial derivatives, securities and other non-current financial assets. Financial derivatives are valued as at the date of the financial statements on the basis of a qualified estimate method.

Accrual principle

Expenses and income are reported on accrual basis in the time period to which they relate. Expenses and income that relate to future periods are reported in the balance sheet of the future period as accrued expenses and income.

Estimates

Estimates and assumptions were used as a part of the preparation of the annual financial statements. Estimates and assumptions have an impact on the reported amounts of assets and liabilities as at the date of the annual financial statements and on the reported amount of revenues and expenses in the tracked period. Such estimates and assumptions are made on the basis of all available information. Future values may differ from such estimates assumptions.

Intangible fixed assets

Intangible fixed assets are assets whose useful life is longer than one year and whose value individually exceeds CZK 60 thousand. Intangible fixed assets are reported at cost. Intangible fixed assets also include technical improvements to such assets provided that value of such technical improvements exceeds CZK 60 thousand in a single accounting period.

Amortisation of intangible fixed assets was first made as at December 31, 2011 in the balance sheet and in 2012 it was already made in the income statement. The City elected to use straight line method.

Low-value intangible fixed assets have been fully written off upon acquisition since 2010. Cumulative write-off of low-value intangible fixed assets acquired up to December 31, 2009 was accounted for, up to December 31, 2011, in the balance sheet (on account 406 – *difference in valuation due to change of method*).

Tangible fixed assets

Tangible fixed assets are assets whose useful life is longer than one year and whose value individually exceeds CZK 40 thousand. Tangible fixed assets also include technical improvements to such assets provided that value of such technical improvements exceeds CZK 40 thousand in a single accounting period. All acquired tangible fixed assets are valued

at cost, which includes the cost of acquisition and any costs associated with the acquisition of such assets.

Depreciation of tangible fixed assets was first made as at December 31, 2011 in the balance sheet and in 2012 it was already made in the income statement. The City elected to use straight line depreciation. Cultural monuments and objects of a cultural nature valued at CZK 1 are not depreciated. Assets designated for sale, which are valued at their fair value, are also not depreciated.

Low-value tangible fixed assets have been fully written off upon acquisition since 2010. Cumulative write-off of low-value intangible fixed assets acquired up to December 31, 2009 was accounted for, as at December 31, 2011, in the balance sheet (on account 406 – *difference in valuation due to change of method*).

Acquired tangible fixed assets (except for lands – see the valuation methods in the below table) are valued at cost, which is the value at which the asset was reported in the accounting records of the previous owner, including any technical improvements that increased such value. Increases to the value over and above the acquisition cost were made in accordance with the accounting regulations in effect at the time the relevant technical improvements were made.

The following table lists the types of tangible fixed assets and the valuation methods:

Type of asset	Valuation method
Plots of land.....	Plots of land are valued in accordance with applicable law.
Infrastructure (roads and sewers).....	At cost
Residential buildings and other buildings.....	At cost, or value reported by previous owner in the case of free-of-charge transfers
Educational facilities (kindergartens, elementary schools and vocational schools).....	At cost
Artistic works and objects.....	At cost, replacement cost
Low-value fixed assets.....	At cost, replacement cost
Real-property cultural monuments...	At cost if purchased, in other cases the value determined by an expert opinion, or a valuation of CZK 1 if acquisition cost is not known
Cultural monuments.....	Valuation of CZK 1 if acquisition cost is not known
Vehicles.....	At cost
Inventory.....	At cost

If a decision is made to cancel fixed assets that are being prepared or that are in construction (unrealised fixed assets), the costs expended on such assets are written off on a one-off basis at the date when the relevant decision is made.

Non-current financial assets

Purchased non-current financial assets are reported at cost which includes also the direct costs associated with the acquisition.

The City's securities and ownership interests are classified depending on their nature as (i) ownership interests in entities in which the City has a decisive or significant influence,

(ii) debt securities held to maturity and (iii) other non-current financial assets (including, without limitation, minority ownership interests).

As at the date of the annual financial statements, (i) ownership interests in entities in which the City has a decisive or significant influence and debt securities held to maturity are valued at cost and (ii) other non-current financial assets (including minority ownership interests) are valued at fair value.

Derivatives

The City classifies derivatives, from an accounting perspective, as either trading derivatives or hedging derivatives.

Hedging derivatives are deemed to be those that meet the following conditions:

- (a) the hedging character is documented at the time the hedging commences;
- (b) the hedging documentation must include, inter alia, the hedged item, hedging instrument and hedged risk;
- (c) the hedging is effective; and
- (d) the efficiency can be measured and is assessed on on-going basis.

Derivatives that do not meet the foregoing requirements for hedging derivatives are classified as trading derivatives.

Financial derivatives are valued at cost at the acquisition date and are reported at fair value as at the annual financial statement date. Off-balance-sheet accounts are used to report liabilities and receivables connected with open financial derivatives as at December 31, in the amount of the underlying instrument. Changes to the fair values of derivatives hedging expected cash flows are accounted for via balance sheet account 407 – other differences in valuation.

Inventory

Inventory is reported at cost which includes also the costs associated with the acquisition.

Receivables and other claims

Receivables and other claims are reported at principal amount decreased by any provisions made.

Foreign currencies

Transactions conducted in foreign currencies are exchanged to CZK by the exchange rate of the Czech National Bank as at the first business day of the calendar year. All bank accounts balances and short term investments in foreign currencies as at the annual balance sheet date are exchanged to CZK by the exchange rate of the Czech National Bank as at December 31.

Debts, loans and bonds

Borrowings, loans and bonds are reported at their principal amounts. All foreign-currency borrowings, loans and bonds are exchanged as at the annual balance sheet date to CZK by the exchange rate of the Czech National Bank as at December 31.

Transfers (Subsidies)

Capex-related and non-capex-related transfers (specific-purpose and non-specific) from the state budget are reported in the income statement as revenues and as income in the Budgetary Statement for the relevant financial year when the transfer of financial resources is realised. Undrawn specific-purpose financial resources are returned to the state budget in the following year, unless the provider decides otherwise.

Short term and long term classification

Assets and liabilities are categorised as long term or short term. The long term category consists of assets and liabilities the useful life or the maturity of which is longer than one year. Other items are deemed to be short term.

Consolidation of budgetary items

Consolidation means the preparation of statements on financial operations in selected accounts in accordance with the budgetary structure in aggregate for all accounts, where reciprocal financial transfers between accounts are eliminated.

Income tax

The due income tax (resulting from the City's economic and business activities) includes an estimate of the tax calculated on the tax base through the use of the tax rate in effect on the last day of the fiscal year and all supplementary assessments and refunds in respect of prior periods.

Funds

Employer's fund – such fund is established by both the City and the City Districts. The fund is used to cover the employer's contributions towards supplementary pension insurance, cultural and recreational activities, contributions towards accommodation and meals and other social assistance to employees.

Fund for apartment repairs and modernisation – the fund includes a special purpose loan from the Czech Ministry for Regional Development.

Reserves and Development Fund – this fund is used for reporting of donations and income not allocated for use in the current year and instalments received on debts from previous years. The fund is used for transfers to other funds and to the City's budget.

Contributory Units' Fund for Financial Settlements – the fund is designated for providing supplementary financial resources to meet certain unfunded requirements of contributory units with regard to capex-related and non-capex-related purposes. The financial resources in this fund, which are not used by the end of the relevant year, will be automatically transferred to the next year.

Changes in accounting methods

Depreciation was first used in the annual financial statements as at December 31, 2011. The amount of cumulative depreciation in respect of depreciated assets was accounted for as at such date in the balance sheet to account 406 – difference in valuation due to change of method. Since 2011, it is possible to make provisions in respect of tangible and intangible fixed assets, financial fixed assets and to make provisions to reduce the value of inventory.

Since January 1, 2010, the City is obliged to prepare the financial statements in accordance with the Czech accounting standards and the accrual principle shall be used. On January 1, 2010, the City prepared a new schedule of accounts and established a new bridging account between the old and new accounts.

Audit

According to applicable law in the Czech Republic, the City is subject to an annual examination of operations which may be exercised by the Ministry of Finance of the Czech Republic or by an independent external auditor. The City may, at its own discretion, opt to have the examination of operation performed by an independent external auditor; in such case, the Ministry of Finance of the Czech Republic does not perform such examination.

The scope of the procedures required for the examination of operations of the City does not conform to the requirements for issuing an auditor's statement and thus the auditor's reports on the results of the examination of operations of the City are not reports on the performance of an audit of financial statements.

For the years ended December 31, 2011 and 2012, the examination of operations was performed by Deloitte Audit s.r.o., with its registered office at Karolinská 654/2, Prague 8 – Karlín, Post Code: 186 00, ID. No. 496 20 592, registered by the Chamber of Auditors under authorisation No. 079.

The examination of operations of the City is conducted by an auditor in accordance with the Czech Act No. 93/2009, on auditors, as amended (the “**Auditors Act**”), international auditing standards and the standards issued by the Chamber of Auditors of the Czech Republic. The content of and procedure for the examination of operations as well as a list of the financial operations, that are subject to the examination, are set forth in Czech Act No. 420/2004 Coll., on the examination of the operations of territorial self-governing units and voluntary associations of municipalities , as amended. The examination of operations is primarily focused on the compliance of operations with law, budgetary rules, accounting principles and with the approved budget. For further information see the Independent Auditor's Reports for 2011 and 2012 incorporated by reference hereinabove in the section “*Documents Incorporated by Reference*”.

The examination of operations of the City for the years ended December 31, 2011 and 2012 was performed in accordance with the above mentioned laws and regulations. The Mayor is responsible for the operations which are subject to auditor's examination and for the representation of such operations in accounting reports of the City.

DESCRIPTION OF DEBT OF ISSUER

Borrowing limitations

City's Strategy

Under the strategic programme of the City Council approved at a meeting held on December 21, 2011:

- (a) the City's primary objective is to maintain the City's creditworthiness and high credit rating;
- (b) any further increase in the City's indebtedness is intended to be committed solely for the implementation of strategic capital expenditures;
- (c) the City does not intend to provide any guarantees to its organisations or companies, save for those situations that are altogether extraordinary or critical;
- (d) the City will duly and timely repay its current debts and meet its internal debt-ceiling fiscal rule until the expiration of its electoral term in autumn 2014 (see "*Description of Issuer - Administration and Organisation - City Assembly - City Council*"); and
- (e) the City's debt should not exceed 100% of the City's budgetary income, with the target to reduce the debt/income ratio to 50%, and the annual debt servicing costs should not exceed CZK 2.5 billion.

Issue of Bonds

Issue of bonds (*in Czech, dluhopisy*) or similar foreign debt securities by the City is governed principally by the City Act and Bonds Act. According to the City Act, the issue of bonds (or similar foreign debt securities) must be approved by the City Assembly. Under the Bonds Act, the issue of bonds (or similar foreign debt securities) by the City is subject to the prior consent of the Czech Ministry of Finance. See "*General Information-Authorisation*". The Czech Ministry of Finance grants its consent to the issue of bonds (or similar foreign debt securities) by the City if:

- (a) the economic situation of the City allows it to meet obligations under bonds (or similar foreign debt securities);
- (b) obligations under bonds (or similar foreign debt securities) will not have any significant negative effect on future economic development of the City;
- (c) bonds (or similar foreign debt securities) proceeds are intended to be used solely for (i) the City's capital expenditures; (ii) recovering of damages caused by a natural or other disaster; or (iii) financing of a project co-financed by the EU funds; and
- (d) the maturity of bonds (or similar foreign debt securities) does not exceed 15 years.

Loans and Credits

The City may, at its sole discretion, conclude loan agreements. Conclusion of loans by the City is subject to the strategy adopted by the City Council (see “- *City’s Strategy*” above) and governed principally by the City Act. The City Assembly must approve any loans of nominal amount exceeding CZK 10,000,000 and agreements on payment schedules with time of payment longer than 18 months.

Medium and Long Term Debt

The medium and long term debt of the City (without the City Districts) consists principally of (i) loans borrowed from the European Investment Banks (approximately CZK 20,809 thousand outstanding as at March 31, 2013); the loans were drawn down mostly in CZK within the framework agreement agreed with the European Investment Bank); and (ii) bonds issued at the Czech domestic market (approximately CZK 5 billion outstanding as at March 31, 2013).

The following table is a summary of the City’s medium and long term debt, without the City Districts, as at December 31, 2011 and 2012, March 31, 2013 and the expected City’s medium and long term debt as at June 30, 2013:

City's Long Term Debt

	Debt as at December 31, 2011	Debt as at December 31, 2012	Debt as at March 31, 2013	Expected⁵ Debt as at June 30, 2013	Interest/ Coupon	Maturity
	CZK	CZK	CZK	CZK		
	(thousands)	(thousands)	(thousands)	(thousands)		
Loans						
EIB – credit of EUR 70 mil. (Prague Infrastructure Project – B).	2,161,471	1,623,379	1,584,929	1,584,929	EIB Rate	2034
EIB – credit of EUR 50 mil. (Prague Municipal Infrastructure Project – A).....	769,958	613,017	534,546	534,546	EIB Rate	2017
EIB – credit of EUR 75 mil. (Prague Metro Project – B).....	1,913,609	1,752,605	1,672,102	1,672,103	EIB Rate	2025
EIB – credit of EUR 75 mil. (Prague Metro Project – A).....	1,284,780 ¹	1,119,233 ²	1,039,242	1,039,288	EIB Rate	2019
EIB – credit of EUR 80 mil. (Prague Flood Damage Project).....	2,374,049	2,263,628	2,208,418	2,208,418	EIB Rate	2033
EIB – credit of EUR 75 mil. (Prague Metro II – AFI-A).....	2,179,555	2,059,636	2,021,519	1,999,676	EIB Rate	2030
EIB – credit of EUR 225 mil. (Prague Metro II – AFI-B).....	5,748,300	5,748,300	5,748,300	5,748,300	EIB Rate	2035
EIB – credit of CZK 6,000 mil. (Prague Metro III – A).....	-	6,000,000	6,000,000	6,000,000	EIB Rate	2042
Loans of City Districts						
City Districts	92,017	83,986	84,420	75,985		
Bonds (does not include the Notes)						
Bonds issued under EMTN program ³	4,386,000 ¹	4,273,800 ²	0	0	4.25%	2013
Czech bonds listed at Prague Stock Exchange.....	5,000,000	5,000,000	5,000,000	5,000,000	4.25%	2021
Financial aids⁴						
City Districts.....	19,456	22,200	22,200	22,200		-
TOTAL.....	25,929,195	30,559,784	25,915,676	25,885,445⁵		

1 Drawn down in EUR. The amount is converted by the official CZK/EUR exchange rate of the Czech National Bank as at December 31, 2011 which is 25.8.

2 Drawn down in EUR. The amount is converted by the official CZK/EUR exchange rate of the Czech National Bank as at December 31, 2012 which is 25.14.

3 Bonds were repaid on March 19, 2013.

4 Returnable financial aids received from the Czech Republic and state funds.

5 The Notes issued hereunder are not included.

The following table sets forth the maturity and debt service schedules of the City's medium and long term debt, without the City Districts, outstanding as at December 31, 2012:

	Repayment	Outstanding debt ¹	Exchange rate CZK/EUR
	(CZK thousand)		
2012	1,246,268,484	30,453,597,757	25.14
2013	5,034,926,759	25,393,820,998	25.00
2014	784,926,759	24,608,894,239	25.00
2015	784,926,759	23,823,967,480	25.00
2016	1,024,398,672	22,799,568,808	25.00
2017	963,334,224	21,836,234,584	25.00
2018	1,167,667,974	20,668,566,611	25.00
2019	1,167,667,971	19,500,898,640	25.00
2020	1,007,927,582	18,492,971,058	25.00
2021	6,007,927,582	12,485,043,476	25.00
2022	1,007,927,582	11,477,115,893	25.00
2023	975,784,725	10,501,331,168	25.00
2024	853,770,812	9,647,560,356	25.00
2025	853,770,812	8,793,789,544	25.00
2026	846,922,884	7,946,866,660	25.00
2027	846,922,884	7,099,943,776	25.00
2028	846,922,884	6,253,020,892	25.00
2029	846,922,884	5,406,098,008	25.00
2030	748,015,980	4,658,082,028	25.00
2031	727,003,814	3,931,078,214	25.00
2032	727,003,814	3,204,074,400	25.00
2033	671,793,379	2,532,281,021	25.00
2034	548,154,041	1,984,127,002	25.00
2035	392,290,267	1,591,836,735	25.00
2036	244,897,959	1,346,938,776	25.00
2037	244,897,959	1,102,040,816	25.00
2038	244,897,959	857,142,857	25.00
2039	244,897,959	612,244,898	25.00
2040	244,897,959	367,346,939	25.00
2041	244,897,959	122,448,980	25.00
2042	122,448,980	0	25.00

1 The Notes issued hereunder are not included.

Short Term Debt

The short term debt of the City includes liabilities which maturities do not exceed one year. The short term debt of the City (including the City Districts) amounted to approximately CZK 11.4 billion as at December 31, 2012 and CZK 16.6 billion as at March 31, 2013.

The significant increase of the City's short term debt in the first half of 2013 was caused by the issue of the Czech short term notes in the aggregate nominal amount of CZK 5 billion and payable by June 20, 2013. The Czech short term notes were issued on March 20, 2013 and repaid on June 20, 2013. Such notes were subscribed by Československá obchodní banka, a. s. and UniCredit Bank Czech Republic, a.s. under the Czech short term note program entered into on March 18, 2013 among the City, as issuer, and Československá obchodní banka, a. s. and UniCredit Bank Czech Republic, a.s. as managers and administrators.

The following table is a summary of the City's short term debt, (including the City Districts), as at December 31, 2011 and 2012 and March 31, 2013:

Short Term Debt	December 31, 2011	December 31, 2012	March 31, 2013
Suppliers.....	1,884,942,361.08	3,150,473,820.74	2,362,332,293.59
Short term notes			5,000,000,000.00
Short term advances received.....	1,626,819,733.29	1,723,579,176.77	1,980,869,886.04
Payables from split administration and advance deposits....	45,925,072.88	81,837,739.75	38,907,384.57
Employees.....	147,520,502.00	148,147,306.00	171,941,798.00
Other payables to employees.....	17,087,947.20	15,706,603.20	16,696,304.20
Clearing with institutions of social security and health insurance.....	135,513,254.00	131,184,755.00	130,062,039.00
Income tax.....	1,087,870,917.59	1,010,140,686.48	1,010,140,686.48
Other direct taxes.....	41,086,665.00	37,721,063.00	17,868,642.50
Value added tax.....	-	71,132,442.91	56,746,492.39
Obligations to subjects apart from selected government institutions.....	-	1,933,650.03	899,348,951.14
Obligations to selected central government institutions.....	3,628,574.30	6,285,794.53	4,902,831.31
Obligations to selected local government institutions.....	329,247,473.25	478,387,819.80	737,165,069.76
Liabilities to members of association.....	124,378.08	124,378.08	124,378.08
Fixed term transactions and options.....	1,338,596,686.48	1,361,036,937.84	137,272,148.00
Short term advance payments for transfers accepted.....	777,290,148.46	496,997,047.65	1,180,721,121.59
Accrued expenses.....	215,250,525.27	67,728,697.65	208,511.99
Unearned revenue.....	456,780,237.67	433,848,001.09	577,710,235.80
Estimated accrued items.....	626,138,903.68	965,032,772.76	313,860,252.96
Other short term payables.....	1,222,523,417.36	1,253,023,697.34	2,039,215,867.88
TOTAL.....	9,956,346,797.59	11,434,322,390.62	16,676,094,895.28

Guarantees

According to the City Act, the City may not guarantee obligations of third parties, except for obligations of:

- a legal entity founded by the City, City District or the Czech Republic;
- a legal entity in which the City solely, or jointly with any municipality, region or the Czech Republic, holds at least 50% shareholding; or
- a legal entity under a loan agreement provided that the loan is to be used as a capital expenditure for a real estate of the City.

The following table sets out a list of guarantees and security provided by the City (without the City Districts) as at December 31, 2011 and 2012:

Name of the debtor	Guarantee/Security as at December, 31, 2011	Guarantee/Security as at December, 31, 2012	Guarantee/Security as at March, 31, 2013
	(CZK thousand)		
Kongresové centrum Praha, a.s.	297,219	208,050	208,050
DPP.....	0	4,000,000	4,000,000
Total.....	297,219	4,208,050	4,208,050

Loan of Kongresové centrum Praha, a.s.

In 2005, KCP drawn down a gradually amortised loan in the amount of CZK 700 million provided by Komerční banka, a.s., the final maturity of which is in December 2014. This loan is fully guaranteed by the City.

Short Term Note Program of Dopravní podnik hl. m. Prahy, akciová společnost

In connection with the CZK 4 billion short term note program dated March 29, 2012 by DPP, the City secured the obligations of DPP under the short term note program by entering into a future notes purchase agreement on March 29, 2012, on the basis of which the City is obliged to purchase the short term notes issued by DPP under the short term note program from the financing banks (Česká spořitelna, a.s. and Československá obchodní banka, a.s.) in the amount of up to CZK 4 billion in case of certain events of default on the part of DPP and/or the City (in particular, the payment default). The short term note program has been issued by DPP in order to finance DPP's acquisition of new tram cars "Škoda 15 ForCity" within the framework of DPP's fleet renovation program and is due on August 30, 2013.

Long Term Note Program of Dopravní podnik hl. m. Prahy, akciová společnost

DPP intends to refinance and extend the above described short term note program by a CZK 8 billion long term note program from Česká spořitelna, a.s. and Československá obchodní banka, a.s. The long term notes are to be issued by DPP in the course 2013 and 2014, payable no later than in December 2025 and gradually amortised from December 2015 to December 2024. On May 7, 2013, the City Council approved the provision of a security in favour of DPP to secure DPP's long term note program by entering into the future notes purchase agreement under which the City would be obliged to purchase the outstanding long term notes issued by DPP in case of certain events of default on the part of DPP and/or the City (in particular, the payment default). Provision of such security and entering into the future long term notes purchase agreement were approved by the City Assembly at the meeting held on June 20, 2013.

Guarantees and other security provided by City Districts

The aggregate amount of guarantees and other security provided by all the City Districts amounted to approximately CZK 238.6 million as at December 31, 2011 and CZK 154.2 million as at December 31, 2012.

Derivatives

City's Hedging Strategy

The City does not conclude any derivative transaction for purposes other than hedging. The financial position of the City reflects the proportional financial market risk secured, as necessary, by hedging instruments protecting the City from the currency and interest risks.

The City monitors the following financial risks:

- (d) *currency risk* – the City seeks to eliminate this risk; and
- (e) *interest risk*– the City seeks to achieve the long term goal corresponding to 50% of the City's long term debt not bearing the interest risk (*i.e.*, 50% of City's long term debt bearing fix interest rate).

The following table sets out the market valuation (mark to market) of derivatives concluded by the City as at December 31, 2011 and 2012:

	As at December 31,	
	2011	2012
	(CZK)	(CZK)
Currency and interest rate hedging of the ten- year EUR 170 million bonds issued under EMTN program ¹	1,196,703,475.90	1,223,764,789.84
Interest rate hedging of EIB loan in the amount of EUR 50 mil. (Prague Municipal Infrastructure Project – A).....	29,320,858.30	25,012,272
Interest rate hedging of EIB loan in the amount of EUR 70 mil. (Prague Municipal Infrastructure Project – A).....	112,572,352.28	112,259,876
Total	<u>1,338,596,686.48</u>	<u>1,361,036,937.84</u>

1 EUR 170 million bonds were repaid on March 19, 2013 and the hedging expired and was repaid.

TAXATION

The statements herein regarding taxation are based on the laws and published practice in force in the relevant jurisdictions as of the date of this offering memorandum and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis.

The following summary does not purport to be a comprehensive description of all of the tax considerations which may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Notes are advised to consult their own tax advisors concerning the overall tax consequences of their ownership of the Notes.

Taxation in the Czech Republic

The information set out below is a summary of certain material Czech tax consequences of the purchase, holding and disposition of Notes and it does not purport to be a complete analysis of all Czech tax considerations relating to the Notes that may be relevant to a decision to purchase the Notes. This summary does not take into account or discuss the tax laws of any country other than the Czech Republic nor does it take into account specific double taxation treaties nor the individual circumstances, financial situation or investment objectives of an investor in the Notes.

This summary is based on the tax laws of the Czech Republic as in effect on the date of this Base Prospectus and their prevailing interpretations available on or before such date. All of the foregoing is subject to change, which could apply retroactively and could affect the continued validity of this summary.

As this is a general summary, holders of the Notes should consult their own tax advisors as to the consequences under the tax laws of the country in which they are resident for tax purposes and the tax laws of the Czech Republic concerning the purchase, holding and disposition of the Notes and receiving payments of interest, principal and/or other payments under the Notes, including, in particular, the application to their own situation of the tax considerations discussed below as well as the application of state, local, foreign or other tax laws. A Czech tax law amendment was enacted and will become effective in 2015. The timing of effectiveness and the scope and extent of such Czech tax law amendment may be subject to further changes. Selected and most significant impacts of the Czech tax law amendment on the Notes are concisely outlined below.

Withholding Tax on Interest

So long as the Notes are issued outside of the Czech Republic, all interest payments to be made by the Issuer under the Notes issued outside the Czech Republic may be made free of withholding or deduction of, for or on the account of any taxes of whatsoever nature imposed, levied, withheld or assessed by the Czech Republic or any political subdivision or taxing authority thereof or therein.

Non-Czech Holders, Holding and Sale

Assuming that the Notes are issued outside of the Czech Republic, interest income on the Notes held by an individual who is not for tax purposes treated as a resident of the Czech Republic or by a person (other than an individual) who is not for tax purposes treated as a

resident of the Czech Republic, a “**Non-Czech Holder**”, will be exempt from taxation in the Czech Republic.

Income realised by Non-Czech Holders, not holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes to other Non-Czech Holders, not purchasing the Notes through a permanent establishment in the Czech Republic, will not be subject to taxation in the Czech Republic.

Income realised by Non-Czech Holders, whether holding the Notes through a permanent establishment in the Czech Republic or not, from the sale of the Notes to an individual who is for tax purposes treated as a resident of the Czech Republic or to a person (other than an individual) who is for tax purposes treated as or deemed to be a resident of the Czech Republic or to an organisational unit of the Czech state, a “**Czech Holder**”, or to a Non-Czech Holder acquiring the Notes through a permanent establishment in the Czech Republic, will be subject to taxation in the Czech Republic, unless:

- (a) the Non-Czech Holder realising that income is resident in a country within the meaning of a double taxation treaty between that country and the Czech Republic, pursuant to the terms of which the right to tax that income is conferred exclusively to the former country, is the beneficial owner of that income, is entitled to enjoy the benefits of that double taxation treaty and does not have a permanent establishment in the Czech Republic to which the income would be attributable; or
- (b) the Non-Czech Holder who is an individual and has held the Notes for more than six months prior to their sale and the Notes have not been held in connection with business activities of the Non-Czech Holder and if so, the Notes will be sold after six months following the termination of such business activities at the earliest. Under the Czech tax law amendment, which will become effective in 2015, the holding period necessary for this exemption will be prolonged to three years and additionally, the gross income from the sale of Notes, which will not exceed CZK 100,000, will not be subject to taxation.

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

If income realised by a Non-Czech Holder, whether holding the Notes through a permanent establishment in the Czech Republic or not, from the sale of the Notes is subject to taxation in the Czech Republic (as discussed in the foregoing paragraphs), the Czech Holder or a permanent establishment in the Czech Republic of a Non-Czech Holder paying the income will be obliged to withhold an amount of 1% on a gross basis representing tax security, unless the Non-Czech Holder selling the Notes is for tax purposes a resident of a member state of the EU or the EEA or unless the obligation to withhold is waived based on a tax authority decision. The tax security shall be credited against the final tax liability of the Non-Czech Holder selling the Notes.

A Non-Czech Holder will not become or be deemed to become a tax resident in the Czech Republic solely by reason of holding of the Notes or the execution, performance, delivery and/or enforcement of the Notes.

Czech Holders, Holding and Sale

Interest income on the Notes held by Czech Holders is subject to Czech corporate and personal income tax, as applicable, at the flat rates of 19% and 15% (under the Czech tax law amendment and with effect from 2015, the rate of the personal income tax will be increased to 19%), respectively, and is payable on a self-assessment basis (in the case of Czech Holders who are individuals, the reporting obligation, in addition to whether the interest income shall be declared on a cash or an accrual basis, will depend on the individual's circumstances in each case). Czech Holders that are subject to Czech accounting standards for entrepreneurs (most companies other than financial or insurance institutions and certain individuals engaged in active business) or to Czech accounting standards for financial institutions (including, in particular, banks) will be required to recognise the interest income on an accrual basis for accounting purposes and, accordingly, include it in their general tax base for Czech income tax purposes in the given period.

Czech Holders who are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions and hold the Notes for the purposes of trading may be, under certain conditions, required to revalue the Notes to fair value for accounting purposes, whereby the unrealised gains or losses would be accounted for as revenues or expenses, respectively. Such revenues are generally taxable and the corresponding expenses are generally tax deductible for Czech tax purposes.

Any gains upon a sale of the Notes will generally be taxable at the above mentioned rates and in the case of Czech Holders who keep accounting books (in principle, all legal entities and certain individuals), any losses will generally be tax deductible. By contrast, a loss realised by Czech Holders who are individuals (other than those mentioned in the preceding sentence) is generally non-deductible, except where such losses are compensated by taxable gains on sales of other securities and the income from the sale of the Notes is not exempt from tax. In the case of Czech Holders who are individuals, any gain derived from the sale of the Notes is exempt from Czech personal income tax if the holding period of the Notes exceeds six months and the Notes have not been held in connection with the business activities of the Czech Holders and, if so, the Notes will be sold after six months following the termination of such business activities at the earliest. Under the Czech tax law amendment, which will become effective in 2015, the holding period necessary for this exemption will be prolonged to three years and additionally, the gross income from sale of Notes, which will not exceed CZK 100,000, will not be subject to taxation.

Value Added Tax

There is no Czech value added tax payable in respect of payments in consideration for the issue of the Notes, or in respect of the payment of interest or principal under the Notes, or in respect of the transfer of the Notes.

Other Taxes or Duties

No registration tax, capital tax, customs duty, transfer tax, stamp duty or any other similar tax or duty is payable in the Czech Republic by a Non-Czech Holder or a Czech Holder in respect of or in connection with the purchase, holding or disposition of the Notes, save for disposition in certain cases upon donation or inheritance.

Taxation in Luxembourg

Luxembourg Income Tax Consequences

The following summary of certain Luxembourg tax consequences of purchasing, owning and disposing of the Notes is of a general nature and is included herein solely for information purposes and does not purport to be a comprehensive description of all tax considerations that may be relevant to a decision to purchase or sell of the Notes. It is based on the laws, regulations and administrative and judicial interpretations presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. This summary also does not take into account the specific circumstances of particular investors. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used in the below paragraphs of this section “*Taxation in Luxembourg*” applies for Luxembourg income tax assessment purposes only. Any reference in this section “*Taxation in Luxembourg*” to a tax, duty, levy, impost or other charge or withholding of a similar nature refers only to Luxembourg tax law and/or concepts. Also, please note that a reference to Luxembourg income tax generally encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds pour l’emploi*), as well as personal income tax (*impôt sur le revenu*). Investors may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Withholding Tax

Individuals

All payments of interest and principal by the Issuer in the context of the holding, disposal, redemption or repurchase of the Notes may be made free of withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein in accordance with applicable law, subject however to:

- (a) the application of the Luxembourg laws of 21 June 2005 (the “**Laws of 21 June 2005**”) implementing the EU Savings Directive and several agreements (the “**Agreements**”) concluded with certain dependent or associated territories of EU Member States and providing for the possible application of a withholding tax on interest paid to or for the benefit of certain non-Luxembourg resident investors (individuals and certain types of entities called “residual entities”, as defined by the Laws of 21 June 2005) in the event such payments are made by the relevant issuer or by an appointed paying agent established in Luxembourg within the meaning of the EU Savings Directive or Agreements, unless the beneficiary of the payment of interest or similar income elects for an exchange of information or provides a specific tax certificate to the Luxembourg paying agent (for further information, please see “*EU Savings Directive*”); and

- (b) the application of the Luxembourg law of 23 December 2005 as amended introducing a final (withholding) tax on certain payments of interest made to certain Luxembourg resident individuals (the “**Law of 23 December 2005**”).

Resident holders of Notes

Payment of interest or similar income (within the meaning of the Law of 23 December 2005) on debt instruments made or deemed made by a paying agent (within the meaning of the Law of 23 December 2005) established in Luxembourg to or for the benefit of an individual Luxembourg resident for tax purposes who is the beneficial owner of such payment or to certain residual entities (such entities defined in article 4.2 of the EU Savings Directive, “Residual Entities”) established in another EU Member State or in an associated or dependent territory with which an Agreement has been signed, and deemed to be acting on behalf of an individual Luxembourg resident, may be subject to a tax at a rate of 10%. Such final tax will be in full discharge of income tax if the individual beneficial owner acts in the course of the management of his/her private wealth. Responsibility for the withholding and payment of the tax lies with the Luxembourg paying agent.

An individual beneficial owner of interest or similar income (within the meaning of the Law of 23 December 2005) who is a resident of Luxembourg and acts in the course of the management of his/her private wealth may opt in accordance with the Law of 23 December 2005 for a final tax of 10% when he receives or is deemed to receive such interest or similar income from a paying agent established in another EU Member State, in a Member State of the EEA which is not an EU Member State, or in a State which has concluded a treaty directly in connection with the EU Savings Directive. The individual resident that is the beneficial owner of interest is responsible for the declaration and the payment of the 10% final tax.

Non-Resident holder of Notes

Under the EU Savings Directive and the Laws of 21 June 2005, a Luxembourg based paying agent (within the meaning of the EU Savings Directive) may be required to withhold tax on interest and other similar income (within the meaning of the Laws of 21 June 2005) paid by it to (or under certain circumstances, for the benefit of) an individual or a Residual Entity which is a resident of, or established in another Member State of the EU, unless the beneficiary of the interest payments or the Residual Entity (where applicable) elects for an exchange of information or provides there relevant documents (including a specific tax certificate) to the Luxembourg paying agent. The same regime applies to payments by a Luxembourg based paying agent to individuals or Residual Entities resident in certain non-EU countries and certain dependent or associated territories (including Jersey, Guernsey, Isle of Man, Montserrat, British Virgin Islands, Curaçao, Saba, Saint Eustatius, Bonaire, St. Maarten and Aruba).

The current tax rate is 35%. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. The tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain other countries (the transitional period may therefore never end).

Investors should note that the European Commission announced proposals to amend the Directive. If implemented, the proposed amendments would, inter alia, extend the scope of the Directive to (i) payments made through certain intermediate structures (whether or not established in a Member State) for the ultimate benefit of an EU resident individual, and (ii) a wider range of income similar to interest.

Corporations

There is no Luxembourg withholding tax for Luxembourg resident and non-resident corporations holders of the Notes on payments of interest (including accrued but unpaid interest), except for interest paid on certain profit-sharing Notes and, arguably, profit-sharing interest paid on loans, which is subject to 15% withholding tax unless on the basis of the tax treaty, concluded with Luxembourg and the country in which the corporation is tax resident, a lower tax rate or an exemption is available.

Income Taxation

Non-Resident holders of Notes

Non-resident holders of Notes, not having a permanent establishment, a permanent representative, or a fixed place of business in Luxembourg to which the Notes or income therefrom are attributable, are not subject to Luxembourg income taxes on income accrued or received, redemption premiums or issue discounts, under the Notes nor on capital gains realised on the disposal or redemption of the Notes. Non-residents holders who have a permanent establishment, a permanent representative, or a fixed place of business in Luxembourg to which the Notes or income therefrom are attributable are subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Notes and on any gains realised upon the sale or disposal of the Notes.

Resident holders of Notes

Individuals

A resident individual acting in the course of the management of a professional or business undertaking must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realised on the sale or disposal, in any form whatsoever, of the Notes, in its taxable income for Luxembourg income tax assessment purposes.

A resident holder of Notes, acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax in respect of interest received, redemption premiums or issue discounts, under the Notes, except if tax has been levied on such payments in accordance with the Law of 23 December 2005.

A gain realised by an individual holder of Notes, acting in the course of the management of his/her private wealth, upon the sale or disposal, in any form whatsoever, of Notes is not subject to Luxembourg income tax, provided this sale or disposal took place more than 6 months after the Notes were acquired. However, any portion of such gain corresponding to accrued but unpaid interest income is subject to Luxembourg income tax, except if tax has been levied on such interest in accordance with the Law of 23 December 2005.

Corporation

A resident holder of Notes (which is not exempt from income taxation) must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realised on the sale or disposal, in any form whatsoever, of the Notes, in its taxable income for Luxembourg income tax assessment purposes.

A holder of the Notes that is governed by the law of 11 May 2007 on family estate management companies (as amended), or by the law of 17 December 2010 on undertakings

for collective investment (amending the law of 20 December 2002), or the law of 13 February 2007 on specialised investment funds (as amended) is neither subject to Luxembourg income tax in respect of interest accrued or received, any redemption premium, nor on gains realised on the sale or disposal, in any form whatsoever, of the Notes.

Net Wealth Taxation

An individual holder of Notes, whether he or she is a resident of Luxembourg or not, is not subject to Luxembourg wealth tax on such Notes.

A resident corporate holder of Notes or non-resident corporate holder of Notes that maintain a permanent establishment, permanent representative or a fixed place of business in Luxembourg to which such Notes are attributable, is subject to Luxembourg wealth tax on such Notes, except if such holder is a private wealth management company (“*société de gestion de patrimoine familial*”) introduced by the law of 11 May 2007 (as amended), an undertaking for collective investment governed by the law of 17 December 2010 (amending the law of 20 December 2002), a securitisation vehicle governed by and compliant with the law of 22 March 2004 on securitisation (as amended), a company governed by and compliant with the law of 15 June 2004 (as amended) on venture capital vehicles, or a specialised investment fund governed by the law of 13 February 2007 (as amended).

Other Taxes

Neither the issuance nor the transfer of Notes will give rise to any Luxembourg stamp duty, value-added tax, issuance tax, registration tax, transfer tax or similar taxes or duties, provided that the relevant issue or transfer agreement is not registered in Luxembourg, which is not mandatory.

Where a holder of Notes is a resident of Luxembourg for tax purposes at the time of his or her death, the Notes are included in his or her taxable estate for inheritance tax assessment purposes.

Gift tax may be due on a gift or donation of Notes if embodied in a Luxembourg deed or registered in Luxembourg.

EU Taxation Aspects

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “**EU Savings Directive**”), member states (including the Czech Republic which implemented the EU Savings Directive into Section 38fa (Paying Agent) of the Czech Income Tax Act) are required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to (or collected by such a person for) an individual resident in that other member state or to certain limited types of entities established in that other member state.

However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income elects for the exchange of information) in relation to such payments, deducting tax at a rate of 35% (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

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

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

SUBSCRIPTION AND SALE

Československá obchodní banka, a. s. and UniCredit Bank Czech Republic, a.s. (together, the “**Joint Lead Managers**”) have, in a subscription agreement dated June 28, 2013 (the “**Subscription Agreement**”) and made between the Issuer and the Joint Lead Managers upon the terms and subject to the conditions contained therein, severally and not jointly, agreed to subscribe and pay for the Notes at their issue price of 99.417 per cent. of their principal amount plus any accrued interest in respect thereof and less a combined management and underwriting commission. Following such subscription for the Notes, the Joint Lead Managers may hold a significant portion the Notes, including until maturity. The Issuer has also agreed to reimburse the Joint Lead Managers for certain of their expenses incurred in connection with the management of the issue of the Notes. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United Kingdom

Each Manager has further represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an 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 the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

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

Czech Republic

None of the Notes has been issued or will be issued as a bond within the meaning of the Bonds Act. Although certain requirements set forth in Section 27 of the Bonds Act apply to the Notes (including the requirement for a prior consent of the Ministry of Finance of the Czech Republic to the issue of such bonds), no approval of the terms and conditions of the Notes is required to be obtained from the Czech National Bank. The Issuer will, however, notify the Czech National Bank in accordance with the Czech Act No. 15/1998 Coll., on capital market supervision, as amended, and the Czech Act No. 219/1995 Coll., on foreign exchange, as amended. See "*General Information – Authorisation*".

No public offering of the Notes has been made or will be made within the meaning of the Czech Act No. 256/2004 Coll., on conducting business on the capital market, as amended (the "**Capital Market Act**") and no application for an approval of a prospectus for any of the Notes has been filed with the Czech National Bank.

None of the Notes has, based on an application by the Issuer, been admitted or will be admitted to trading on any regulated market in the Czech Republic and no application for approval of a prospectus for any of the Notes has been filed with the Czech National Bank and no application for admission of any of the Notes to trading on such regulated market in the Czech Republic has been filed with any organiser of a regulated market in the Czech Republic. See "*General Information – Listing, Approval and Admission to Trading of Notes*".

Each Joint Lead Manager has represented, warranted and undertaken that it has complied and will comply with the Bonds Act, the Capital Market Act or and the Czech Act No. 21/1992 Coll., on banks, as amended with respect to anything done by it in relation to the Notes in, from, or otherwise involving the Czech Republic and each Joint Lead Manager has undertaken:

- (a) not to offer or sell any Notes in the Czech Republic through a public offering (in Czech, *veřejná nabídka*), except for a public offering for which the publication of a prospectus is not required under any applicable exemption set out in the Capital Market Act provided that, under the Capital Market Act, "public offering" means any communication to a wider group of persons containing information on the investment securities to be offered and the terms of their acquisition, which is sufficient for an investor to make a decision to purchase or subscribe to these investment securities;
- (b) not to apply for approval of this Prospectus by the Czech National Bank (or passporting of this Prospectus into the Czech Republic) or for admission of the Notes to trading on a regulated market in the Czech Republic or on any other European regulated market within the meaning of the Capital Market Act; and
- (c) not to take any other action which would result in the Notes being deemed to have been issued as a bond pursuant to the Bonds Act or to be issued in the Czech Republic or requiring any other permit, registration, filing or notification to the Czech National Bank (save for the notification required pursuant to Czech Act No. 15/1998 Coll., on capital market supervision, as amended, and the Czech Act No. 219/1995 Coll., on foreign exchange, as amended) or other authorities in the Czech Republic (save for the prior consent

of the Ministry of Finance of the Czech Republic to the issue of the Notes required pursuant the Bonds Act) in respect of the Notes in accordance with the Bonds Act or the Capital Market Act or the practice of the Czech National Bank.

Luxembourg

Each Joint Lead Manager has represented, warranted and undertaken not to offer or sell the Notes within the territory of the Grand Duchy of Luxembourg without a simplified prospectus duly approved by the L as referred to in Chapter 2, Part III of the Luxembourg Prospectus Act, unless the offer benefits from any other exemption to, or constitutes a transaction otherwise not subject to, the requirement to publish a prospectus or a simplified prospectus.

Republic of Italy

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa (the “**CONSOB**”) pursuant to Italian securities legislation. Each Joint Lead Manager has represented and agreed that any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time); and
- (b) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Joint Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State it will not offer or sell any Notes in the Relevant Member State through a public offering, except for a public offering for which the publication of a prospectus is not required under any applicable exemption set out in the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression Prospectus Directive includes any relevant implementing measure in the Relevant Member State.

General

Each Joint Lead Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any other offering material relating to the Notes. Persons into whose hands this Prospectus comes are required by the Issuer, and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

The creation and issue of the Notes by the Issuer has been authorised by a resolution of the City Assembly dated September 20, 2012 and resolutions of the City Council dated September 11, 2012, May 7, 2013 and June 4, 2013.

The issue of the Notes has been approved by a resolution of the Ministry of finance of the Czech Republic dated June 12, 2013.

Pursuant to Section 8a of Czech act No. 15/1998 Coll., on Capital Markets Supervision, as amended, the issuance of the Notes must be notified to the Czech National Bank no later than on the date of issue of the Notes setting out the place of issue and principal amount of the Notes and the form, yield and maturity of the Notes.

Pursuant to Section 5 of Czech act no. 219/1995 Coll., Foreign Exchange Act, as amended, in connection with Section 8a of Czech decree no. 34/2003 Coll., the place of issue, aggregate principal amount, yield and maturity of the Notes shall be notified to the Czech National Bank within 15 days from the date when the subscription period for the Notes expires.

Listing, Approval and Admission to Trading of Notes

Application has been made for the Notes to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange (the “LSE”) and to be listed on the official list of the LSE. The LSE’s regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Yield

The yield of the Notes is 3.194 per cent as calculated on the basis of the issue price of the Notes. It is not an indication of future yield.

Documents Available

For so long as any of the Notes are outstanding, copies of the following documents may be inspected during normal business hours at the specified office of each Paying Agent or registered office of the Issuer:

- (a) this Prospectus;
- (b) annual financial statements of the Issuer examined by an auditor for the financial years ended December 31, 2011 and December 31, 2012;
- (c) the Agency Agreement;
- (d) the Deed of Covenant; and
- (e) the Subscription Agreement.

In addition, copy of this Prospectus and each document incorporated by reference in this Prospectus are available on LSE’s website at *www.bourse.lu*.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The ISIN is XS0943724962 and the common code is 094372496.

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

Significant Change

Except as disclosed in this Prospectus, there has been no significant change in the financial position of the Issuer since December 31, 2012 which has or may have a significant adverse effect on the ability of the Issuer to perform its obligations under the Notes.

Litigation

Except as described on page 49 under the heading “*Description of Issuer - Litigation*” the Issuer is not or has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Prospectus which have or may have a significant adverse effect on the ability of the Issuer to perform its obligations under the Notes.

Post-Issuance Information

The Issuer does not intend to provide any post-issuance information, except if required by any applicable laws, regulations or stock exchange rules.

ISSUER

CITY OF PRAGUE

Mariánské náměstí 2
110 00 Praha 1
Czech Republic

FISCAL AGENT

**The Bank of New York Mellon, London
Branch**

One Canada Square
London E14 5AL
United Kingdom

**OTHER PAYING AGENT AND
LISTING AGENT**

The Bank of New York Mellon (Luxembourg) S.A.

Vertigo Building – Polaris
2-4 rue Eugène Ruppert
L-2453 Luxembourg

LEGAL ADVISORS TO ISSUER

as to English law

WEIL, GOTSHAL & MANGES

110 Fetter Lane
London, EC4A 1AY
United Kingdom

as to Czech law

WEIL, GOTSHAL & MANGES s.r.o.

advokátní kancelář
Křížovnické nám. 193/2
110 00 Praha 1
Czech Republic

LEGAL ADVISORS TO JOINT LEAD MANAGERS

as to English law

Clifford Chance LLP

10 Upper Bank Street
London
E14 5JJ
United Kingdom

as to Czech law

Clifford Chance LLP

Jungmannova Plaza
Jungmannova 24
110 00 Prague 1
Czech Republic

AUDITORS OF ISSUER

Deloitte Audit s.r.o.

Karolinská 654/2
186 00 Praha 8
Czech Republic

JOINT LEAD MANAGERS

Československá obchodní banka, a. s.

Radlická 333/150
150 57 Praha 5
Czech Republic

UniCredit Bank Czech Republic, a.s.

Želetavská 1525/1
140 92 Praha 4 - Michle
Czech Republic